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2005 ANNUAL REPORT

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ANNUAL MEETING NOTICE

The Annual General Meeting of the Unitholders of Peak Energy Services Trust will be held at 10:00 am, Monday, June 5, 2006 in the Viking Room of the Calgary Petroleum Club, 319 - 5th Avenue SW, Calgary, Alberta, Canada. Unitholders and other interested parties are invited to attend.

PEAK ENERGY
SERVICES TRUST

CORPORATE PROFILE

Peak Energy Services Trust ("Peak" or the "Trust") is a diversified energy services organization operating in western Canada and the mid-west United States of America. Through its operating segments, the Trust provides drilling and production services to oil and gas producers.

Since 1996, Peak has experienced significant growth by acquiring complementary service companies, integrating services and diversifying product lines. The Trust's integrated product offerings and broad geographical range benefit customers by increasing efficiencies and reducing costs.

PRODUCT OFFERINGS

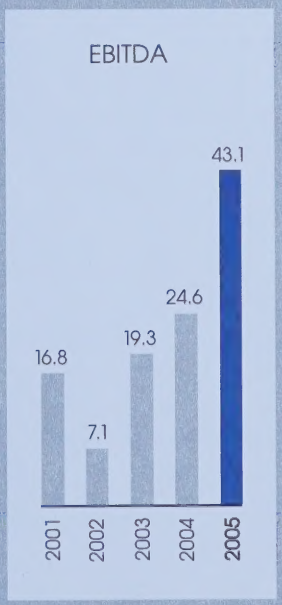
Drilling Services

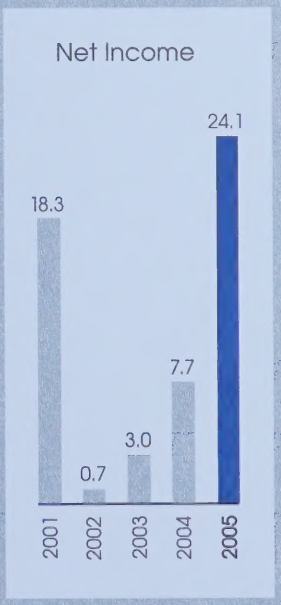
- **Solids control** – the rental of sumpless drilling systems comprised of a series of tanks and centrifuges that are used primarily for the removal of drill cuttings from the drilling fluid as it is circulated out of the well bore;
- **Well-site accommodations** – the rental of high-quality well-site accommodation units used as office and living quarters for personnel on drilling rig locations;
- **Access matting** – the rental of access matting used to construct roads, pipeline rights-of-way and drilling rig locations; and
- **Environmental Services** – the rental of wastewater management systems for the processing of grey and black water effluent in remote locations.

Production Services

- **Wireline** – the provision of slick line services for down hole production and completion activities;
- **Fluids handling** – tank truck and related services for production and completion activities; and
- **Production equipment** – the rental of frac/production tanks, blow-back tanks, flare stacks, light towers, service rig equipment and miscellaneous production and completion equipment.

FINANCIAL HIGHLIGHTS





Note: All amounts in millions of Canadian dollars.

Fellow Unitholders:

The fiscal year 2005 was another exciting and successful year for Peak Energy Services Trust ("Peak" or the "Trust"). It was the first full year that Peak operated as an income trust, which has proven to be a successful business model. During this period of time, Peak has demonstrated the benefits of its conversion to an income trust by generating higher cash returns for its Unitholders, receiving stronger valuations on its unit price and seeing an increase in the liquidity of its units. It was also the first full year that Peak operated under its new organizational structure, whereby all of its operating assets were re-branded and managed through one operating entity, Peak Energy Services. This reorganization was completed in conjunction with the conversion to an income trust, ensuring that Peak's operating structure was as streamlined as possible to allow for the continued execution of the Trust's aggressive growth plan. Once again, this strategy was proven successful with 2005 being a year of significant growth in which positive operating results were achieved on all fronts.

With the stage set and a new platform for growth established, management continued to execute on their growth plan throughout 2005. Peak successfully completed three strategic business acquisitions during the year for total consideration of $41.6 million. The Trust also remained aggressive on the organic growth front by spending a further $23.4 million, of which $19.4 million was directed toward new capital equipment additions to meet increasing customer demand. One of the long-term goals and objectives for senior management has been to achieve a more equitable revenue balance between its Drilling Services and Production Services segments. Peak's acquisition activity and internal growth over the past two years has resulted in a revenue split between the two segments of 68 percent drilling related and 32 percent production related for fiscal 2005. This compares to a fiscal 2004 split of 72 percent and 28 percent, respectively, showing positive movement toward achieving this goal. It is management's philosophy that this long term strategy will continue to create Unitholder value by generating a stable cash flow stream throughout the year and at the same time insulate the Trust from the seasonality and cyclical nature of services that are more directly tied to the drill bit.

The execution of Trust's ongoing growth strategy played a significant role in generating record results in 2005. Revenue increased by 57 percent from $70.3 million in 2004 to $110.7 million in 2005. These results compare favorably with drilling rig operating days increasing by 20 percent over the same time period. This increase in revenue resulted in earnings before interest, taxes, depreciation and amortization ("EBITDA") of $43.1 million, an increase of 75 percent over the prior year while funds from operations increased from $19.5 million in 2004 to $40.9 million in 2005 representing an increase of 110 percent. The majority of Peak's growth during 2005 occurred in the latter part of the year and as a result the full financial impact of the strategic business acquisitions and internal equipment additions will not be completely realized until 2006.

Regardless of the significant amount of growth capital deployed during the year, Peak demonstrated its ability to maintain a strong financial position through seeking equity in the capital markets. During the year, Peak raised gross proceeds of approximately $20.0 million through the issuance of 1,667,000 trust units at a price of $12.00 per trust unit. The net result was a year end balance sheet that reflected net debt of $31.9 million on Unitholders' equity of $179.3 million and undrawn credit facilities of approximately $72.3 million. During fiscal 2005, the Trust paid out distributions to Unitholders that represented a payout ratio of 58 percent of funds from operations. This ratio is within Peak's stated objective to payout between 50 to 60 percent of its funds from operations as cash distributions on an annual basis. Peak's strong financial position will continue to allow management to respond to growth opportunities in a timely fashion.

LOOKING FORWARD

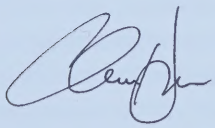
Momentum that was generated in the fourth quarter of 2005 has carried into 2006 with record levels of activity being achieved in the early part of the first quarter. In keeping with this, the outlook for Peak continues to be very positive. Industry analysts' consensus is predicting that 2006 should see a 5 percent overall increase in drilling activity from 2005. The combination of this anticipated increase in activity levels, Peak's aggressive internal capital expenditure program during 2005, higher pricing for Peak's products and services and strategic business acquisitions completed during 2005 should allow Peak to generate record results for 2006.

In 2006, Peak's main focus will be on organic growth as it plans to execute on its largest internal capital expenditure budget in the history of the Trust. This $55.4 million budget will be focused on the continued growth and diversification of the strategic business acquisitions that were completed during the past 2 fiscal years. The majority of the growth planned in 2006 will help meet the Trust's increasing customer demand for all of its existing products and services. Management will also continue to seek out strategic business acquisition opportunities that offer complementary business lines along with opportunities to diversify and grow internally. Peak's bias on the acquisition front will continue to lean toward production related opportunities. Achieving an equitable balance between production related services and drilling related services remains one of management's key strategic goals. To this point, Peak expects its drilling services segment to contribute approximately 60 percent of the company's overall revenue during fiscal 2006 which will be down considerably from the 68 percent generated in 2005.

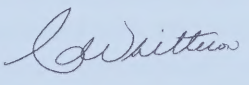
Peak will continue to be opportunistic in its growth strategy and remains well positioned to take advantage of opportunities as they arise with its strong financial position, cash flow, disciplined payout ratio and access to capital.

Our employees are, without a doubt, our most valuable asset and continue to be the single largest contributor to Peak's success. To that end, I would like to take this opportunity to thank all of our dedicated employees for their ongoing commitment. We look forward to what is shaping up to be a very exciting and rewarding 10th Anniversary Year for Peak in 2006.

On behalf of the Board of Directors of Peak Energy Services Ltd., Administrators of Peak Energy Services Trust:



Christopher E. Haslam, CMA, CBV
Chairman of the Board and Chief Executive Officer
Peak Energy Services Ltd.
February 23, 2006



Curtis W. Whitteron, CET
President and Chief Operating Officer
Peak Energy Services Ltd.
February 23, 2006

Peak Energy Services Trust ("Peak" or the "Trust") is the successor publicly held entity of Peak Energy Services Ltd. ("PESL" or the "Company"), thereby comparative information for the respective prior year period is provided. By means of a Plan of Arrangement, effective May 1, 2004, PESL became a wholly-owned subsidiary of the Trust.

The following management's discussion and analysis ("MD&A") of financial condition, results of operations and cash flows for the year ended December 31, 2005, should be read in conjunction with the Trust's audited annual consolidated financial statements for the years ended December 31, 2005 and 2004 and the notes contained therein. This MD&A was prepared effective February 23, 2006, except for the Corporate Governance section that was prepared effective March 10, 2006. Additional information relating to the Trust, including the Trust's Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

This MD&A focuses on key statistics from the Trust's consolidated financial statements and oilfield services industry which contains known and unknown risks and uncertainties. This MD&A should not be considered all-inclusive, as it does not incorporate all changes that could occur in the geopolitical, economic or environmental conditions. In addition, certain statements contained in this MD&A includes words such as "looks forward", "anticipate", "continue", "estimate", "may", "project", "could", "should", "expect", "believe", "will" and similar expressions and statements relating to matters that are not historical facts are forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Peak's control, including the impact of general economic conditions, industry conditions, competition from other industry participants, volatility of commodity prices, currency fluctuations, environmental risks, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peak's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that will derive there from. Peak disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Throughout this MD&A certain measures are used that are not recognized measures under Canadian generally accepted accounting principles ("GAAP"). Specific measures used are earnings before interest, taxes, depreciation and amortization ("EBITDA"), funds from operations and income before reorganization costs and equipment impairment losses ("Income Before Certain Items"). Please review the discussion of these measures in the "Non-GAAP Measures" section of this MD&A.

DESCRIPTION OF BUSINESS

Peak is a diversified energy services organization operating in western Canada and the mid-western United States of America. Through its operating segments, the Trust provides drilling and production services to oil and gas producers.

The Trust operates in two segments within the oil and gas industry. These operating segments and respective product offerings are:

DRILLING SERVICES

- **Solids control** – the rental of sumpless drilling systems comprised of a series of tanks and centrifuges that are used primarily for the removal of drill cuttings from the drilling fluid as it is circulated out of the well bore;
- **Well-site accommodations** – the rental of high-quality well-site accommodation units used as office and living quarters for personnel on drilling rig locations;
- **Access matting** – the rental of access matting used to construct roads, pipeline rights-of-way and drilling rig locations; and
- **Environmental services** – the rental of wastewater management systems for the processing of grey and black water effluent in remote locations.

PRODUCTION SERVICES

- **Wireline** – the provision of slick line services for down hole production and completion activities;
- **Fluids handling** – tank truck and related services for production and completion activities; and
- **Production equipment** – the rental of frac/production tanks, blow-back tanks, flare stacks, light towers, service rig equipment and miscellaneous production and completion equipment.

VISION AND STRATEGY

Since 1996, Peak has experienced significant growth by acquiring complementary service companies, integrating services and diversifying product lines. The Trust's integrated product offerings and broad geographical range benefit customers by increasing efficiencies and reducing costs. Peak's overall vision is embodied in its vision statement:

> ***"Peak will focus on disciplined growth through acquisitions and internal expansion of existing and new businesses."***

The Trust is focused on growing the business, which can be measured in several quantitative and qualitative terms such as the balance sheet, revenues, EBITDA, net income, funds from operations, cash distributions, market capitalization, branch locations, number of assets, service quality, customer satisfaction, safety and number of employees. No one measure completely defines this growth, however the key fundamental is "disciplined growth" that achieves accretive results for all stakeholders.

Peak executes its vision through implementation of its strategy. This strategy is captured in Peak's mission statement:

> ***"Peak is a proactive, solutions driven organization. We are committed to being an industry leader, providing a progressive, innovative, team-oriented environment, maximizing value for all stakeholders."***

At the very foundation of this strategy is Peak's rental assets and people. Peak's focus is on providing its customers with ***"Superior Equipment and Exceptional Service"***, which is not possible without quality equipment and committed employees.

In order to achieve ***Superior Equipment***, Peak places special emphasis on continually finding ways to improve the quality and reliability of its rental assets through the implementation of:

- best practice preventative maintenance programs for all its existing product lines;
- an acquisition due diligence program with specific criteria focusing on the qualitative aspects of rental assets being acquired; and
- an asset rationalization program, whereby equipment identified as sub-standard and not generating an appropriate rate of return is disposed of so that the proceeds can be reinvested in higher quality equipment expected to generate higher returns on invested capital.

For Peak, ***Exceptional Service*** encompasses meeting the needs of its customers on several different fronts. Specific focus is placed on:

- demonstrating commitment to the oil and gas services industry by being a leader in the product lines and services that Peak chooses to provide;
- offering complementary, integrated products and services thereby reducing the number of suppliers Peak's customers are required to utilize; and
- having a broad geographical platform to deliver Peak's products and services though having branch locations in all the key areas of western Canada and the mid-west United States of America to service our customers.

To achieve the "disciplined growth" objective of Peak's vision, strategic business acquisitions and internal capital expenditures are key. Timing of strategic business acquisitions within the oil and gas industry cycle is critical for these transactions to be accretive from a financial perspective, as sellers' purchase price expectations tend to vary with industry activity. Peak's strategy is to maintain a conservative financial position and undrawn acquisition loan facilities so that when accretive, strategic business acquisition opportunities arise, Peak is positioned to capitalize. Furthermore, significant internal capital expenditures require both financial resources and supplier relationships. Peak's strategy is to build long-term relationships with its key suppliers to ensure access to materials and resources in times of high industry activity levels when supply cannot meet demand. The Trust's infrastructure is critical for successful integration of strategic business acquisitions and deployment of significant internal capital expenditures. Another key element of Peak's strategy is to build a "plug and play" scaleable infrastructure, which includes management, sales and marketing, finance and administration, information technology and systems, human resources and health, safety and environment. In addition, having a broad geographical platform gives Peak a competitive advantage, as it facilitates timely deployment and support of equipment to meet customer needs.

Ultimately, Peak's strategy is driven by the goal of "maximizing value" for all of Peak's stakeholders. The stakeholders' measurement of value differs based on their perspective, however one thing common to all of them meeting their goals, is their dependence on Peak's financial stability and success. The Trust's key measurement of this is its overall return provided to its Unitholders. A key factor to this overall return is consistency of the Trust's ability to generate cash flow that it can ultimately distribute to Unitholders or retain for reinvestment. Historically, Peak has been highly levered towards drilling related activities that offer higher margins, but are more cyclical and seasonal in nature. Since converting to an income trust in fiscal 2004, Peak has shifted its acquisition and capital expenditure strategy bias towards production related opportunities to create a more balanced revenue base between drilling and production services. Although production related services generate slightly lower margins, they tend to be less cyclical and seasonal in nature, providing desired stability to the Trust's ability to generate cash flow in times of lower industry activity.

OVERALL PERFORMANCE

YEARS ENDED DECEMBER 31 *(in thousands of CAD, except otherwise noted)*	2005	2004	% Change
Revenue	110,696	70,325	57
Net income	24,071	7,691	213
Per unit – diluted [1]	1.00	0.41	144
EBITDA [2]	43,103	24,649	75
Per unit – diluted [1]	1.74	1.27	37
Funds from operations [2]	40,939	19,474	110
Per unit – diluted [1]	1.65	1.00	65
Unitholder ROI [3]	54%	37%	46
Pre-tax ROE [4]	19%	13%	46
Distributions to Unitholders (paid and declared)	23,848	11,493	108
Per unit	0.99	0.61	62
As a percentage of funds from operations [5]	58%	59%	-1
Income before reorganization costs and equipment impairment losses [2]	24,137	10,690	126
Capital expenditures [6]	55,540	60,901	-9
Tangible capital assets	180,805	150,844	20
Long-term debt	37,750	20,000	89
Total liabilities	90,067	64,549	40
Unitholders' equity	179,295	141,105	27
Working capital [7]	25,768	19,656	31
Current ratio [8]	2.53:1	2.50:1	1
Long-term debt to equity ratio [9]	0.21:1	0.14:1	-49
Long-term debt to EBITDA ratio [10]	0.88:1	0.81:1	-9
Trust Units outstanding (thousands)	26,488	22,931	16
Trust Units issueable on conversion of Exchangeable Shares outstanding (thousands)	131	856	-85
Total Trust Units outstanding and issueable (thousands)	26,619	23,787	12
Industry activity [11]			
Number of drilling rig operating days	158,420	132,375	20
Drilling rig utilization	60%	53%	13
Wells drilled	24,800	22,729	9
Service rig utilization	79%	73%	8

(1) Calculations presented for the 2004 period were based on the equivalent weighted average number of Trust Units that would have been outstanding if the Trust had existed for the entire comparative period presented.

(2) Refer to the "Non-GAAP Measures" section for further details.

(3) Unitholder return on investment ("ROI") is defined as the total capital appreciation in the market value of a Trust Unit plus distributions paid and declared during the period divided by market value of a Trust Unit at the beginning of the period.

(4) Pre-tax return on equity ("ROE") is defined as the income before other items divided by the average Unitholders' equity.

(5) Distributions to Unitholders (paid and declared) as a percentage of funds from operations are defined as distribution to Unitholders (paid and declared) divided by funds from operations.

(6) Capital expenditures include both business acquisitions and purchase of capital assets.

(7) Working capital is defined as current assets less current liabilities excluding current portion of long-term debt.

(8) Current ratio is defined as current assets divided by current liabilities excluding current portion of long-term debt.

(9) Long-term debt to equity ratio is defined as long-term debt including current portion of long-term debt divided by Unitholders' equity.

(10) Long-term debt to EBITDA ratio is defined as long-term debt including current portion of long-term debt divided by EBITDA.

(11) Sources: Canadian Association of Oilwell Drilling Contractors ("CAODC"), the Daily Oil Bulletin ("DOB") and Petroleum Services Association of Canada ("PSAC").

During fiscal 2005, strong commodity prices motivated oil and gas producers and explorers, which influenced drilling rig activity, as drilling rig operating days reached an all time high of 158,420 days, surpassing the previous record set in 2004 of 132,375 days. Peak's revenue for the year ended December 31, 2005 as compared to the prior year period, increased by $40.4 million or 57 percent to $110.7 million. EBITDA increased $18.5 million or 75 percent to $43.1 million, while funds from operations increased $21.5 million or 110 percent to $40.9 million. Income before reorganization costs and equipment impairment losses was $24.1 million an increase of $13.4 million or 126 percent and net income was $24.1 million ($1.00 per Unit diluted) an increase of $16.4 million or 213 percent.

The Drilling Services operating segment increased revenue by $24.9 million or 49 percent as it generated $75.6 million in revenue or 68 percent of the Trust's total revenue for the year ended December 31, 2005, compared to $50.7 million or 72 percent for the prior year period. The primary reasons for the increase in excess of the 2005 increase of 20 percent in drilling rig operating days was the impact of three strategic business acquisitions (one in 2005 and two in 2004), significant growth capital expenditures to improve Peak's rental equipment product mix, improved rental equipment utilization and day rates realized. The Production Services operating segment improved revenue by $15.5 million or 79 percent as it contributed $35.1 million in revenue or 32 percent of the Trust's total revenue for the year ended December 31, 2005, compared to $19.6 million or 28 percent for the prior year period. The main reasons for the year-over-year increase in excess of the 8 percent increase in service rig utilization was the impact of two strategic business acquisitions (one in 2005 and one in 2004), significant growth capital expenditures made to improve Peak's rental equipment product mix and monthly rental agreements with customers in areas of the Western Canadian Sedimentary Basin ("WCSB") impacted by wet weather, which mitigated lower activity levels.

EBITDA increased $18.5 million or 75 percent to $43.1 million for the year ended December 31, 2005. EBITDA as a percentage of revenue, was 39 percent for the current fiscal period as compared to 35 percent for fiscal 2004. The primary drivers for the improved EBITDA margin were the economies of scale realized by the Trust associated with the significant strategic business acquisitions and growth capital expenditures made and reduced repair and maintenance costs as a percentage of revenue incurred.

For the year ended December 31, 2005, income before reorganization costs and equipment impairment losses was $24.1 million as compared to $10.7 million for fiscal 2004. This translated into a year-over-year increase of 126 percent. Meanwhile, for the year ended December 31, 2005, net income increased 213 percent to $24.1 million ($1.00 per Unit diluted) compared to net income of $7.7 million ($0.41 per Unit diluted) for the same period of 2004.

Total assets increased by $63.7 million or 31 percent from $205.7 million at December 31, 2004 to $269.4 million at December 31, 2005. The change was primarily related to the $46.2 million in strategic business acquisitions, the $8.3 million net increase in current assets (excluding $1.5 million in working capital added through business acquisitions), $0.5 million net increase in deferred financing costs and the $8.8 million net increase in property and equipment, intangibles and goodwill (exclusive of the business acquisitions). The net property and equipment, intangibles and goodwill increase was the result of $23.4 million in purchases, $3.3 million fair value realized on the acquisition of a portion of the non-controlling interest, $2.0 million realized on the earn-out consideration paid associated with a 2004 strategic business acquisition, offset by depreciation and amortization of $12.8 million, $6.9 million in disposals and equipment impairment losses of $0.1 million.

Total liabilities increased $25.5 million or 40 percent from $64.5 million at December 31, 2004 to $90.1 million at December 31, 2005. The change was the result of the $3.7 million net increase in current liabilities (exclusive of the current portion of long-term debt), the $17.8 million net increase in long-term debt (including current portion of long-term debt), the $7.5 million net increase in future income taxes and the $3.5 million net decrease in non-controlling interest.

Unitholders' equity increased $38.2 million or 27 percent from $141.1 million at December 31, 2004 to $179.3 million at December 31, 2005. The change was primarily the result of issuance of Trust Units for net cash proceeds of $18.9 million, the issuance of Trust Units related to business acquisitions for the equivalent fair value of $11.5 million, the issuance of Trust Units related to the exchange of Exchangeable Shares for the equivalent fair value of $7.6 million and net income of $24.1 million offset by distributions to Unitholders of $23.9 million.

KEY PERFORMANCE DRIVERS AND MEASURES

KEY PERFORMANCE DRIVERS

Peak believes the following key performance drivers are critical to its success:

- geopolitical conditions, which can impact global hydrocarbon supply, demand and pricing;
- current and forecasted hydrocarbon prices and the resulting cash flows, access to debt and equity financing that ultimately influence Peak's customers' (oil and gas producers and explorers) capital programs and their activity levels;
- customers' expectations as to future oil and gas prospects in the WCSB;
- weather conditions, which can limit activity levels in the WCSB and impact the overall demand for natural gas, heating oil and other hydrocarbon based products;
- ability to attract and retain key personnel;
- availability of strategic business acquisition opportunities at purchase price levels that are accretive and availability of materials and resources to meet internal capital expenditure requirements;
- interest rates and related access to debt and equity facilities to support operating and growth activities; and
- effects of non-industry forces such as government and securities regulators, which create uncertainty and potential additional costs, impacting industry activity levels and profit margins.

KEY PERFORMANCE MEASURES

Several of the key performance drivers detailed are outside of Peak's control, however there are certain key performance measures that Peak utilizes to evaluate its performance and success of its strategy on achieving its vision. These key performance measures are:

- **Unitholder ROI**. For fiscal 2005, Unitholder ROI was 54 percent (2004 – 37 percent). In addition, Peak has aligned its key management with Unitholders by mirroring this measure through a market based bonus plan which is detailed in note 16 to the consolidated financial statements.

- **Pre-tax ROE.** For fiscal 2005, Peak achieved a pre-tax ROE of 19 percent (2004 – 13 percent). It should be noted that this measure drives variable compensation potential for all employees, indirectly aligning them with Unitholders.
- **Return on invested capital** ("ROIC" is defined as total capital outlay divided by net income generated). ROIC is used by Peak to evaluate strategic business acquisitions and significant internal capital expenditure opportunities. Peak targets a high ROIC when evaluating investment opportunities.
- **Cash distributions as a percentage of funds from operations.** The Trust targets a cash distribution range of between 50 and 60 percent of funds from operations. For fiscal 2005, the Trust declared distributions of 58 percent of funds from operations (2004 – 59 percent).
- **Customer satisfaction.** Although not easily quantified, Peak measures customer satisfaction based on several qualitative factors. The most significant of these is customer loyalty demonstrated through repeat business.
- **Employee satisfaction.** Peak conducts periodic employee surveys and monitors turn-over in key positions within the organization to evaluate employee satisfaction. In addition, Peak has a "Confidence Line" program for employees to express grievances on a confidential basis which management and the Board of Directors monitor and evaluate on a periodic basis.
- **Environmental stewardship and safety.** The Trust has a comprehensive health, safety and environmental policy and program which is disclosed on Peak's website. Peak uses several criteria to measure success of the program, with one of the more significant being the achievement and maintenance of a Certificate of Recognition ("COR") from the province of Alberta. The program is applied across the organization and is continually upgraded and expanded each year to effectively reduce workplace incidents.

SELECTED ANNUAL INFORMATION

YEARS ENDED DECEMBER 31 *(in thousands of CAD, except otherwise noted)*	2005	2004	2003
Revenue	110,696	70,325	55,573
Net income	24,071	7,941	3,048
Earnings per Unit – basic [1]	1.01	0.42	0.20
Earnings per Unit – diluted [1]	1.00	0.41	0.20
Total assets	269,362	205,654	139,832
Long-term debt	37,750	20,000	20,773

(1) Calculations presented for the 2004 and 2003 periods are based on the equivalent weighted average number of Trust Units that would have been outstanding if the Trust had existed for the entire comparative periods presented.

INDUSTRY ACTIVITY LEVELS

The oil and gas services industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. The factors and related risks of this are detailed in "Business Risk – Industry Conditions" section of this MD&A. The segments of the oil and gas services industry in which Peak operates are heavily reliant on the level of drilling activity in Western Canada. In the past three years, the number of drilling rig operating

days increased from 126,430 days in 2003, to 132,375 days in 2004, to 158,420 days in 2005, representing a 5 percent increase in industry activity between 2003 and 2004 and a 20 percent increase in industry activity between 2004 and 2005. Correspondingly, the Trust's reported annual revenue increased 27 percent between 2003 and 2004 and increased 57 percent between 2004 and 2005.

BUSINESS ACQUISITIONS

During fiscal 2005, Peak made three strategic business acquisitions for total consideration of $41.6 million (refer to the "Liquidity – Investing Activities" section of this MD&A for further details). Furthermore, during 2004 Peak made two strategic business acquisitions and one acquisition that was classified as a purchase of equipment for accounting purposes, for total consideration of $39.5 million, and during 2003 made three strategic business acquisitions for total consideration of $13.7 million. Peak's strategy is to efficiently integrate strategic business acquisitions, however this makes it very difficult to determine, with certainty, the full revenue impact. Management's best estimate of these strategic business acquisitions' revenue contribution (including the impact of the capital expenditures made to the product line subsequent to the acquisition date) was approximately $9.1 million, $17.6 million and $47.1 million for fiscal 2003, 2004 and 2005, respectively. Excluding the impact of these strategic business acquisitions, revenue was approximately $46.5 million for fiscal 2003, $52.7 million for fiscal 2004 and $63.6 million for fiscal 2005, representing an increase of $6.2 million or 13 percent between fiscal 2003 and 2004 and $10.9 million or 21 percent between fiscal 2004 and 2005.

REORGANIZATION COSTS

During the second quarter of fiscal 2004, the Trust incurred $3.9 million ($2.6 million, net of tax) in costs associated with the reorganization into an income trust. Excluding these costs, income for fiscal 2004 was $10.3 million, representing an increase of $7.5 million or 246 percent between fiscal 2003 and 2004 and $13.5 million or 134 percent between fiscal 2004 and 2005.

EQUIPMENT IMPAIRMENT LOSSES

For fiscal 2003, 2004 and 2005, the Trust incurred equipment impairment losses on discontinued product lines totaling $5.5 million ($3.6 million, net of tax), $0.6 million ($0.4 million, net of tax) and $0.1 million ($0.1 million, net of tax), respectively. Excluding these costs, income was $6.7 million, $8.3 million and $24.1 million for fiscal 2003, 2004 and 2005 respectively. This translates to an increase of $1.6 million or 24 percent between fiscal 2003 and 2004 and $15.8 million or 190 percent between fiscal 2004 and 2005. In aggregate, these product lines generated revenue of $2.8 million in 2003, $1.8 million in 2004 and $0.6 million in 2005.

ADJUSTED REVENUE

Excluding revenue derived from the strategic business acquisitions made during 2003, 2004 and 2005 and revenue generated by equipment that incurred impairment losses, the Trust's revenue was $43.7 million, $50.9 million and $63.0 million for fiscal 2003, 2004 and 2005, respectively. This represents an increase of 16 percent between 2003 and 2004 (drilling rig days increased 5 percent) and an increase of 24 percent between 2004 and 2005 (drilling rig days increased 20 percent). This somewhat correlates with the fluctuations in industry activity levels already discussed. The remainder of the positive variance, as compared to industry activity levels, was primarily the result of the Trust's internal growth capital expenditures made during the past three years and improved rental equipment utilization and day rates realized.

RESULTS OF OPERATIONS

REVENUE

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Drilling Services revenue	75,589	50,677	24,912	49
Production Services revenue	35,107	19,648	15,459	79
Total revenue	110,696	70,325	40,371	57

For the year ended December 31, 2005, Peak generated revenue of $110.7 million compared to $70.3 million for fiscal 2004, representing an increase of 57 percent compared to an increase of 20 percent in drilling rig operating days over this time period. Total drilling rig operating days during fiscal 2005 were 158,420 days compared to 132,375 days for fiscal 2004, meanwhile drilling rig utilization only increased 13 percent due to increased capacity added to the drilling rig fleet during 2005. Service rig utilization increased by 8 percent during the year ended December 31, 2005, as compared to the prior year.

Drilling Services increased revenue by $24.9 million or 49 percent as it generated $75.6 million in revenue or 68 percent of the Trust's total revenue for the year ended December 31, 2005, compared to $50.7 million or 72 percent for the prior year period. In comparison to the 2005 increase of 20 percent or 26,045 drilling rig operating days, Peak's Drilling Services operating segment produced strong results.

Contributing to the increase in revenue for this operating segment over the industry increase were:

- solids control capacity added September 15, 2005, with the acquisition of 33 drilling fluid recovery systems, 29 high capacity shale tanks and other related equipment from Source Oilfield Rentals Inc. ("Source") for total consideration of $9.5 million. Refer to the "Liquidity – Investing Activities" section of this MD&A for further details;
- solids control capacity added November 1, 2004, with the acquisition of 35 centrifuges, 75 sumpless auger tanks, 25 shale tanks and other related equipment from Davlin Holdings Ltd., Grand Tank (International) Inc. and DavCan Holdings Ltd. (collectively referred to as "Davlin") for total consideration of $29.0 million;
- solids control capacity added March 16, 2004, with the acquisition of 17 centrifuges and related assets from Tecumseh Industries Ltd. ("Tecumseh") for total consideration of $5.0 million;
- significant internal growth capital expenditures, in addition to the acquisitions identified above, made throughout fiscal 2005 and 2004 to improve Peak's rental equipment product mix; and
- improved rental equipment utilization and day rates realized.

Production Services improved revenue by $15.5 million or 79 percent as it contributed $35.1 million in revenue or 32 percent of the Trust's total revenue for the year ended December 31, 2005, compared to $19.6 million or 28 percent for the prior year period. The year-over-year revenue increase of 79 percent compares favorably to the 8 percent increase in service rig utilization.

The primary factors attributing to the increase in revenue for this operating segment over the industry increase were:

- the introduction of the wireline services product line added July 1, 2005, with the acquisition of 22 wireline units and other related equipment from Competition Wireline Services Ltd. and 1177868 Alberta Ltd. (collectively referred to as "Competition") for total consideration of $31.5 million plus a future earn-out potential of up to $6.0 million. Refer to the "Liquidity – Investing Activities" section of this MD&A for further details;
- production equipment capacity added May 18, 2004, with the acquisition of 83 blow-back tanks, 24 flare stacks, 7 blow-back / flare stack combination tanks and other related equipment from BF Oilfield Services Ltd. ("BF") for total consideration of $5.5 million;
- significant growth capital expenditures, in addition to the acquisition identified above, made throughout fiscal 2005 and 2004 to improve Peak's rental equipment product mix; and
- a significant amount of fixed rental contract agreements with customers in areas of the WCSB impacted by wet weather, which mitigated lower activity levels.

OPERATING EXPENSES

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Operating expenses	47,295	32,007	(15,288)	-48
As a percentage of total revenue	43%	46%		

For the year ended December 31, 2005, operating expenses were higher than the prior year period by $15.3 million or 48 percent. However, as a percentage of revenue, operating expenses were 43 percent compared to the prior year period of 46 percent. The primary drivers of the improvement in operating expenses as a percentage of revenue were:

- the economies of scale realized by the Trust associated with the significant strategic business acquisitions and growth capital expenditures made during the current year and later part of fiscal 2004; and
- the reduced repair and maintenance costs, as a percentage of revenue, incurred as a result of:
    - the Trust's ongoing asset rationalization program, whereby equipment identified that was not generating an appropriate rate of return was disposed of and the proceeds were reinvested in equipment that is expected to generate improved returns on invested capital;
    - the Trust's improved preventative maintenance program on key rental assets; and
    - higher equipment utilization restricted the Trust's opportunities to complete certain non-mandatory maintenance activities that is now expected to occur either late in the first quarter or second quarter of fiscal 2006, during the seasonal break-up.

GENERAL AND ADMINISTRATIVE EXPENSES

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
General and administrative expenses	20,298	13,669	(6,629)	-48
As a percentage of total revenue	18%	19%		

General and administrative expenses (G&A) were $6.6 million or 48 percent higher than the prior year period. However, as a percentage of revenue, G&A remained relatively consistent as it was 18 percent for fiscal 2005 as compared to 19 percent for the prior year period. The primary contributors to the dollar increase were:

- increased number of employees and related costs resulting from the recent strategic business acquisition activities and industry activity levels;
- increased variable compensation (bonuses and commissions) as a result of an increase in the number of employees and the Trust's improved financial performance;
- increased facility rental costs primarily resulting from the recent strategic business acquisitions;
- increased communication costs associated with the increased number of employees and related industry activity levels; and
- professional consulting fees associated with the Trust's regulatory compliance activities.

DEPRECIATION AND AMORTIZATION EXPENSES

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Depreciation and amortization expenses	12,780	10,028	(2,752)	-27

For the year ended December 31, 2005, depreciation and amortization expenses were higher than the prior year period by $2.8 million or 27 percent. As compared to the prior year period, the Trust incurred additional amortization expenses of $1.1 million on intangible assets consisting of customer relationships, non-compete covenants and patents associated with the recent strategic business acquisitions. In addition, the acquisitions of Competition and Source, and significant capital expenditures made throughout fiscal 2005 and 2004, significantly increased the asset base to be depreciated. The remainder of the increase over the prior year period was due to increased equipment utilization resulting in higher depreciation for those assets depreciated on a utilization basis. At December 31, 2005, the net asset carrying value of property and equipment was $180.8 million, compared to $150.3 million at December 31, 2004.

INTEREST ON LONG-TERM DEBT EXPENSE

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Interest on long-term debt expense	1,672	1,154	(518)	-45

Interest on long-term debt expense increased to $1.7 million for fiscal 2005, representing an increase of $0.5 million or 45 percent over fiscal 2004. The interest cost (expressed as a percentage of the average long-term debt outstanding during the period) was 4.5 percent for the twelve months ended December 31, 2005, compared to 5.5 percent for the comparable period of 2004. The year-over-year decrease in the percentage

was representative of the Trust's restructuring of its debt facilities from a relatively fixed rate nature to that of a combined fixed and floating rate nature. Until August 31, 2005, all of the Trust's debt facilities outstanding during fiscal 2005 were directly related to the bank prime rate that remained relatively consistent throughout the period. On August 31, 2005, the Trust added and utilized a $30.0 million debt facility with a fixed rate of 5.8 percent for seven years with no principal payments required until maturity.

LOSS ON SALE OF EQUIPMENT

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Loss on sale of equipment	1,721	2,601	880	34

For the year ended December 31, 2005, the loss on sale of equipment amounted to $1.7 million compared to a loss of $2.6 million for the prior year period. The loss was the result of the Trust's ongoing asset rationalization program, whereby equipment identified during the period not generating an appropriate rate of return was disposed of and the proceeds were reinvested in equipment that is expected to generate improved returns on invested capital.

LOSS (GAIN) ON SALE OF EQUIPMENT HELD FOR SALE

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Loss (gain) on sale of equipment held for sale	(8)	17	25	147

For fiscal 2005, the gain on sale of equipment held for sale was $8,000 compared to a loss of $17,000 for the prior year period. The individual gains and losses incurred on the equipment upon disposal were insignificant and demonstrates that the impairment loss recognized in prior fiscal periods addressed the over valuation of the specific assets disposed of. At December 31, 2005, all of the equipment held for sale was disposed of.

IMPAIRMENT LOSS ON EQUIPMENT AND EQUIPMENT HELD FOR SALE

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Impairment loss on equipment and equipment held for sale	100	590	490	83

During the first quarter of fiscal 2005, the Trust incurred an impairment loss on equipment of $0.1 million which is reflected in the operating results for the year ended December 31, 2005. The loss relates to the Trust's anchor services assets which were sold in their entirety on April 29, 2005 to a third party. Management evaluated and determined that these assets were non-core to its existing operations and it would be more beneficial to exit this market segment. The carrying value of the assets related to the sale exceeded the purchase price, hence an impairment loss was recognized to reduce the assets' carrying value to their fair value. These assets were classified as Production Services for segmented information purposes.

REORGANIZATION COSTS

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Reorganization costs	-	3,927	3,927	100

For the current fiscal period, Peak did not incur any reorganization costs, however during the second quarter of 2004, Peak incurred reorganization costs of $3.9 million. These costs were incurred to complete the reorganization of PESL into the Trust and included expenses for financial advisors, tax advisors, legal services, internal costs and other associated costs.

PROVISION FOR INCOME TAXES

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Provision for (reduction) income taxes	1,963	(1,495)	(3,458)	-231
Effective income tax rate	7%	-23%		

The current tax provision of $0.6 million and future tax provision of $1.4 million, resulted in a net income tax provision of $2.0 million and an effective income tax rate of 7 percent for the year ended December 31, 2005. The effective income tax rate differs significantly from the statutory corporate rate of 34 percent as the result of the Trust's legal structure. As a mutual fund trust for purposes of the *Income Tax Act* (Canada), the Trust is only subject to statutory income taxes on taxable income not distributed to Unitholders. In addition, the Trust does not recognize any future income tax assets or liabilities on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) in the Trust. The Trust's corporate subsidiaries are subject to statutory corporate income taxes, federal large corporation taxes, certain provincial capital taxes and certain state taxes and recognize future income tax assets and liabilities on "temporary differences".

The December 31, 2005 variance of $7.1 million in the provision for income taxes from the expected federal and provincial statutory income tax rate of 34 percent was the result of the following:

- an increase of $0.4 million or 1 percent of the provision for capital taxes;
- a reduction of $7.5 million or 28 percent of the provision for amounts included in Trust income distributed to Unitholders;
- an increase of $0.2 million or 1 percent of the provision for non-deductible items for tax purposes; and
- a net reduction of $0.1 million or 1 percent of the provision for other items.

INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Income attributable to non-controlling interest	804	250	(554)	-222

Income attributable to non-controlling interest was $0.8 million for the year ended December 31, 2005 as compared to $0.3 million for the year ended December 31, 2004. This represents the respective consolidated income of the Trust attributable to the non-controlling interest as a result of the retroactive adoption of new required Canadian accounting standards. Refer to the "Changes in Accounting Policies – Non-controlling Interest" section of this MD&A for further details.

NET INCOME

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Net income	24,071	7,691	16,830	213
Earnings per Unit – diluted [1]	1.00	0.41	0.59	144

(1) Calculation presented for the 2004 period is based on the equivalent weighted average number of Trust Units that would have been outstanding if the Trust had existed for the entire comparative period presented.

For the year ended December 31, 2005, income before reorganization costs and equipment impairment losses was $24.1 million as compared to $10.7 million for fiscal 2004. This translated into a year-over-year increase of 126 percent. Meanwhile, for the year ended December 31, 2005, net income increased 213 percent to $24.1 million ($1.00 per Unit diluted) compared to net income of $7.7 million ($0.41 per Unit diluted) for fiscal 2004.

SUMMARY OF QUARTERLY RESULTS

2005 *(in thousands of CAD, except otherwise noted)*	Q1	Q2	Q3	Q4	Total
Revenue	25,108	16,070	32,541	36,977	110,696
Net income [1]	6,354	1,142	7,973	8,602	24,071
Earnings per unit – basic [1]	0.28	0.05	0.32	0.33	1.01
Earnings per unit – diluted [1]	0.27	0.05	0.32	0.33	1.00

2004 *(in thousands of CAD, except otherwise noted)*	Q1	Q2	Q3	Q4	Total
Revenue	18,733	11,280	16,424	23,888	70,325
Net income (loss) [1]	2,850	(1,799)	2,381	4,259	7,691
Earnings (loss) per unit – basic [1][2]	0.17	(0.10)	0.13	0.22	0.42
Earnings (loss) per unit – diluted [1][2]	0.16	(0.10)	0.13	0.22	0.41

(1) Figures presented for the first quarter of 2005 and all 2004 periods have been restated.

(2) Calculations presented for the first quarter of 2004 period is based on the equivalent weighted average number of Trust Units that would have been outstanding if the Trust had existed for the comparative period presented.

SEASONALITY OF OPERATIONS

The Trust's operations are carried out in western Canada and the mid-western United States of America. The ability to move heavy equipment in oil and gas fields is dependant on weather conditions, whereby thawing in the spring renders many secondary roads incapable of supporting heavy equipment until the ground is dry. In addition, areas in the more northern parts of Canada are accessible only in winter months where the ground is frozen deep enough to support the weight of the equipment. As a result, the Trust's activity generally follows along with this seasonality, demonstrated by the Trust's quarterly revenue fluctuations, whereby activity is traditionally higher in the first and fourth quarters of the year and lower in the second and third quarters of the year. Starting in March 2003, as a result of the access matting acquisition, the Trust commenced providing access matting for constructing roads, pipeline rights-of-way and drilling locations in remote areas of western Canada. This service is most active throughout the second and third quarters of the year providing a counter-cyclical revenue stream to Peak's historical operations.

LIQUIDITY

OPERATING ACTIVITIES

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Funds from operations	40,939	19,474	21,465	110
Per Unit – diluted	1.65	1.00	0.65	65

Funds from operations were $40.9 million ($1.65 per Unit diluted) for fiscal 2005. The $21.5 million or 110 percent increase over fiscal 2004 was directly attributed to the higher revenues realized and associated income before non-cash items experienced during 2005. Meanwhile, net cash provided by operating activities was $36.4 million for the twelve months ended December 31, 2005 as compared to $17.7 million for the prior year period. Funds from operations represents net cash provided by operating activities before including the impact of the change in non-cash working capital items. Funds from operations and net cash provided by operating activities are heavily dependent on the generation of sufficient income before non-cash items. As such, changes in the level of industry drilling activities will significantly affect funds from operations.

INVESTING ACTIVITIES

Net cash used in investing activities during the year ended December 31, 2005 was $50.4 million (2004 – $52.7 million). These activities were the result of the following:

- the strategic business acquisition of the operating assets of Source on September 15, 2005, for consideration of $9.5 million, comprised of $6.5 million in cash and the equivalent of $3.0 million in Trust Units (0.3 million Trust Units were issued). Source provides drilling fluid recovery systems, auxiliary pumps, wash guns and shale tanks for the purpose of aiding in the cleaning of hydrocarbon based drilling fluid from the drill cuttings on location. These assets are classified as Drilling Services for segmented information purposes;
- the strategic business acquisition of all the issued and outstanding shares of Competition on July 1, 2005, for consideration of $31.5 million, comprised of $25.0 million in cash and the equivalent of $6.5

million in Trust Units (0.6 million Trust Units were issued), subject to a one year earn-out of between nil and $6.0 million payable in either cash or Trust Units at the discretion of Peak management. Competition provides production and completion wireline services to oil and gas producers in the northwest and central areas of the WCSB. Production wireline services are used for the ongoing maintenance and optimization of existing producing wells, whereas completion related wireline services are geared toward assisting in initializing production in new wells drilled. These assets are classified as Production Services for segmented information purposes;

- the strategic business acquisition of the operating assets of Sandman Rentals Inc. ("Sandman") on February 15, 2005, for cash consideration of $0.7 million. Sandman provides high capacity blow-back tanks and related transportation services within the production services side of the oil and gas industry. These assets are classified as Production Services for segmented information purposes; and
- $18.2 million of net equipment purchases (includes proceeds on sale of equipment of $5.2 million).

Further information on the above capital expenditures are detailed in the "Capital Resources – Capital Expenditures" section of this MD&A.

FINANCING ACTIVITIES

Net cash provided by financing activities for the year ended December 31, 2005 was $12.6 million (2004 – $42.2 million). These activities were the result of the following:

- the payment of $23.4 million in Trust distributions to Unitholders;
- the issuance of 1.7 million Trust Units (includes issuance of Trust Units, net of costs) for net proceeds of $18.9 million;
- a net increase in long-term debt of $17.8 million used to fund strategic business acquisitions and internal growth capital expenditures; and
- the payment of deferred financing costs of $0.6 million associated with the additional debt facilities added in August 2005. Refer to "Capital Resources – Long-term Debt" of this MD&A for further details.

WORKING CAPITAL

The Trust had net working capital of $25.8 million at December 31, 2005, compared to $19.7 million at December 31, 2004. The Trust's current ratio remained strong as it increased to 2.53 to 1.00 at December 31, 2005, from 2.50 to 1.00 at December 31, 2004.

OPERATING LINE OF CREDIT

Peak has a demand operating line of credit facility at its disposal to meet short-term cash requirements. The maximum facility available to the Trust is the lesser of $5.0 million or 75 percent of Peak's accounts receivable. The facility bears interest at the bank prime rate or banker's acceptance rates plus a stamping fee of 0.75 to 1.00 percent and is secured by an unlimited guarantee, a general assignment of book debts, a demand debenture and a general security agreement. It is the Trust's intention to increase or decrease this facility, as required, to meet working capital requirements.

CONTRACTUAL OBLIGATIONS

(in thousands of CAD)	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	Total
Long-term debt	918	6,832	-	30,000	**37,750**
Operating and capital leases	6,533	13,140	8,195	23,442	**51,310**
Total contractual obligations	7,451	19,972	8,195	53,442	**89,060**

The Trust intends to fund its contractual obligations through cash flow generated by operating activities. Meanwhile, the current debt facilities are being utilized to fund growth capital expenditures and strategic business acquisitions. It is intended that as these facilities reach their capacity of $110.0 million, the Trust would negotiate an increase to these facilities with its lender, negotiate other debt facilities or issue additional Trust Units to reduce the facilities in order to provide debt facility capacity to fund future growth initiatives.

CAPITAL RESOURCES

CAPITAL EXPENDITURES

During the fiscal 2005, the Trust expended a total of $55.5 million on gross asset purchases and $50.4 million on net asset purchases (includes strategic business acquisitions and purchase of equipment, net of proceeds on sale of equipment) compared to $60.9 million and $52.9 million, respectively, in 2004.

The total expenditure consisted of:

- the strategic business acquisition of all the operating assets of Source, effective September 15, 2005, for consideration of $9.5 million, comprised of $6.5 million in cash and the equivalent of $3.0 million in Trust Units (0.3 million Trust Units were issued);
- the strategic business acquisition of all the issued and outstanding shares of Competition on July 1, 2005, for consideration of $31.5 million, comprised of $25.0 million in cash and the equivalent of $6.5 million in Trust Units (0.6 million Trust Units were issued), subject to a one year earn-out of between nil and $6.0 million payable in either cash or Trust Units;
- the strategic business acquisition of all the operating assets of Sandman, effective February 15, 2005, for cash consideration of $0.7 million; and

A summary of the components of the three strategic business acquisitions are:

(in thousands of CAD)	Sandman	Competition[1]	Source[1]	Total
Equipment	665	14,821	4,072	19,558
Intangibles	-	8,100	1,700	9,800
Goodwill	-	11,567	3,728	15,295
Future income taxes	-	(4,547)	-	(4,547)
Working capital	-	1,530	-	1,530
Total consideration	665	31,471	9,500	41,636
Fair value of Trust Units issued	-	(6,500)	(3,000)	(9,500)
Total cash consideration	665	24,971	6,500	32,136

(1) The allocation of the purchase price has been adjusted from the previously disclosed amounts to reflect the final determination of allocation of the purchase price.

- $18.2 million, net of proceeds on sale of equipment, on capital related items.

By operating segment, the expenditures were:

(in thousands of CAD)	Drilling Services	Production Services	Total
Growth	12,594	6,424	19,018
Maintenance	1,995	546	2,541
Infrastructure	-	-	1,845
	14,589	6,970	23,404
Proceeds on sale of equipment			(5,173)
			18,231

Peak intends to make approximately $55.3 million (excluding proceeds from disposals) in capital expenditures during fiscal 2006 through its normal business operations. The fiscal 2006 capital expenditure program is the result of management identifying opportunities to further expand the Trust's existing product offerings to take advantage of areas with high customer demand. The planned expenditures by operating segment are:

(in thousands of CAD)	Drilling Services	Production Services	Total
Growth	25,216	19,138	44,354
Maintenance	5,077	1,246	6,323
Infrastructure	-	-	4,612
	30,293	20,384	55,289

Within the Drilling Services growth plan, the Trust plans to expend $11.8 million on the solids control product line, $3.1 million on the well-site accommodation product line, $6.6 million on the access matting product line, $2.5 million on the environmental services product line and $1.2 million on trucking and related equipment that is used to mobilize both drilling and production equipment. Meanwhile for the Production Services growth plan,

the Trust plans to expend $13.4 million on the wireline product line, $4.3 million on the fluids handling product line and $1.5 million on the production equipment product line. In addition to the planned capital expenditures for fiscal 2006, the Trust intends on continuing to identify, evaluate and acquire oil and gas service companies and/or service assets that complement Peak's business model. The Trust plans to use cash generated from operating activities to fund maintenance capital expenditures and to utilize its existing debt and equity facilities outlined below to fund growth capital expenditures and any strategic business acquisitions contemplated for fiscal 2006.

LONG-TERM DEBT

The Trust has increased its long-term debt (including current portion) by $17.8 million from $20.0 million at December 31, 2004 to $37.8 million at December 31, 2005. The long-term debt to equity ratio increased to 0.21 to 1.00 at December 31, 2005 (2004 – 0.14 to 1.00). Furthermore, the long-term debt to EBITDA ratio increased to 0.88 to 1.00 at December 31, 2005 (2004 – 0.81 to 1.00). Although both of these ratios increased from the prior year, they demonstrate that the Trust is not highly debt levered. Of the Trust's $110.0 million long-term debt facilities, $72.2 million was available for use by the Trust for future capital expenditures and strategic business acquisitions.

The Trust's available and utilized long-term debt facilities consist of:

- Pursuant to an agreement dated April 29, 2005, the Trust renewed its financing arrangement for an extendable term revolving acquisition loan facility of $60.0 million that is intended to be utilized to fund capital expenditures and acquisitions as required. At December 31, 2005, $7.8 million of the facility was utilized. The terms of the facility require no set principal payments during the term, bearing interest at bank prime plus 0.25 percent or at banker's acceptance rates plus a variable stamping fee of 1.50 to 1.75 percent. The facility is renewable on April 28, 2006, at the lender's option, for an additional 364 day period. If not renewed, the loan is repayable over a period of two years, amortized over five years.
- Pursuant to an agreement dated August 31, 2005, the Trust negotiated a financing agreement for two term loan facilities of $30.0 million and $20.0 million that is intended to be utilized to fund capital expenditures and acquisitions as required. On August 31, 2005, the term loan of $30.0 million was drawn down and utilized to repay outstanding advances on the extendable term revolving acquisition loan facility. The term of this facility is no set principal payments during the seven year term bearing interest at 5.8 percent. The term loan facility of $20.0 million is available to be drawn down until June 30, 2006. The seven year term of this facility requires no set principal payments during the term, bearing interest at the Government of Canada bond yield plus 2.15 percent determined at the time of the advance. The facilities are secured by a general securities agreement and Inter-Lender agreement.

All covenants were satisfied at December 31, 2005, all banking requirements were up to date and the Trust does not anticipate any covenant issues restricting its future operating, investing or financing activities.

NON-CONTROLLING INTEREST

The non-controlling interest decreased $3.5 million to $1.0 million at December 31, 2005 from $4.5 million at December 31, 2004. The non-controlling interest is the result of the retroactive adoption of the new required Canadian accounting standards. Refer to the "Changes in Accounting Policies – Non-controlling Interest" section of this MD&A for further details.

The non-controlling interest on the balance sheet represents the book value of the remaining Exchangeable Shares plus the accumulated income or loss of the Trust attributed to the Exchangeable Shares. The Exchangeable Shares were originally issued by PESL as part of the reorganization into an income trust effective May 1, 2004. The primary reason for the issuance of the Exchangeable Shares was to defer the deemed capital gain or loss for Canadian income tax purposes that holders of PESL common shares would have been otherwise subject to as part of the reorganization into the Trust. As the number of Exchangeable Shares outstanding has decreased significantly and the remaining Exchangeable Shares outstanding is less that 5 percent, the Trust intends on exercising its right to force the exchange of the remaining Exchangeable Shares and has commenced the process to do so.

The holders of Exchangeable Shares do not receive distributions declared by the Trust. Rather, on each distribution payment date, the number of Trust Units, which one Exchangeable Share is exchangeable into, is increased on a cumulative basis in respect of the distributions. At December 31, 2005, the Exchangeable Share exchange ratio was one Exchangeable Share to 1.17439 Trust Units (December 31, 2004 – 1.06677 Trust Units).

UNITHOLDERS' EQUITY

Unitholders' equity increased $38.2 million to $179.3 million at December 31, 2005 from $141.1 million at December 31, 2004. The increase over the prior year was primarily the result of:

- the issuance of 1.7 million Trust Units (includes issuance of Trust Units, net of costs) for net proceeds of $18.9 million;
- the issuance of 0.9 million Trust Units for the equivalent of $9.5 million associated with the strategic business acquisitions of Competition (0.6 million Trust Units or $6.5 million) and Source (0.3 million Trust Units or $3.0 million);
- the issuance of 0.8 million Trust Units for the equivalent of $7.6 million associated with the exchange at fair value of 0.7 million Exchangeable Shares of PESL. Refer to the "Changes in Accounting Policies – Non-controlling Interest" section of this MD&A for further details;
- net income of $24.1 million generated; and
- the distribution of $23.8 million to Unitholders.

The Trust declared distributions of $0.99 per Unit for a total of $23.8 million, of which $2.3 million was paid on January 16, 2006, in respect of earnings to December 31, 2005. The following table summarizes Peak's distributions:

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Distributions to Unitholders	23,848	11,493	12,355	108
Distributions per Unit	0.99	0.61	0.38	62
As a percentage of funds from operations	58%	59%		

Distributions declared represented 58 percent (2004 – 59 percent) of funds from operations (this does not take into account the impact of maintenance capital expenditures) for the year ended December 31, 2005. The Trust's Indentures (for both Peak and PCT) govern the amounts that the Trustee and the Administrator (PESL) can distribute to Unitholders. These Indentures give management the latitude to withhold reasonable reserves for operations. Currently, management's objective is to pay in the range of 50 to 60 percent of the Trust's funds from operations on an annual basis. Management believes that this distribution ratio level will allow it to fulfill its

vision and execute on its strategy while maintaining a stable financial position that will insulate the Trust from any short-term fluctuations in industry activity levels without having to reduce or eliminate the current distribution amount per Unit. It should be noted that there can be no assurances made that the Trust will make any future distributions.

Peak had 26,487,866 Trust Units and 111,522 Exchangeable Shares (equivalent to 130,970 Trust Units converted at the exchange rate of 1.17439) outstanding at December 31, 2005, compared to 22,931,184 Trust Units and 802,822 Exchangeable Shares (equivalent to 856,426 Trust Units converted at the exchange rate of 1.06677) at December 31, 2004. As of March 10, 2006, the number of Trust Units and Exchangeable Shares outstanding have not changed since December 31, 2005.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2005, the Trust had no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

The Trust paid underwriting fees of $0.5 million to Canaccord Capital Corporation ("Canaccord") as part of the total underwriting fees paid in association with the Trust Unit offering of 1.7 million Trust Units. A member of PESL's Board of Directors is an officer of Canaccord. The fees paid to Canaccord were consistent with the fees paid to the other parties involved in the Trust Unit offering and were evaluated and considered by management and PESL's Board of Directors, exclusive of the Canaccord officer, to be at fair market value. In addition, under the Trust Unit offering, Canaccord acquired 0.8 million Trust Units of the Trust for gross proceeds of $9.9 million.

FOURTH QUARTER RESULTS

REVENUE

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Drilling Services revenue	24,493	18,264	6,229	34
Production Services revenue	12,484	5,624	6,860	122
Total revenue	36,977	23,888	13,089	55

For the three months ended December 31, 2005, Peak generated revenue of $37.0 million compared to $23.9 million for the same period of fiscal 2004, representing an increase of 55 percent compared to an increase of 24 percent in drilling rig operating days over this time period. Total drilling rig operating days during the fourth quarter of fiscal 2005 were 48,831 days compared to 39,478 days for the same period of 2004. Service rig utilization decreased by 2 percent during the fourth quarter of 2005 as compared to the prior year period.

Drilling Services increased revenue by $6.2 million or 34 percent as it generated $24.5 million in revenue or 66 percent of the Trust's total revenue for the three months ended December 31, 2005, compared to $18.3 million or 76 percent for the prior year period, respectively. In comparison to the fourth quarter industry increase of 24 percent in drilling rig operating day, Peak's Drilling Services operating segment produced strong results. Consistent with the discussion of annual revenues (refer to the "Results of Operations – Revenue" section of

this MD&A for further details), strategic business acquisitions, significant growth capital expenditures, strong utilization and improved pricing were the primary reasons for the Trust's strong revenue performance relative to the industry activity levels.

Production Services improved revenue by $6.9 million or 122 percent as it contributed $12.5 million in revenue or 34 percent of the Trust's total revenue for the three months ended December 31, 2005, compared to $5.6 million or 24 percent for the prior year period, respectively. The quarter-over-quarter increase of 122 percent compares favorably to the 2 percent decrease in service rig utilization. As discussed in the annual revenues narrative (refer to the "Results of Operations – Revenue" section of this MD&A for further details), a strategic business acquisition and significant growth capital expenditures were the primary reasons for the Trust's strong performance in this operating segment compared to industry activity levels.

OPERATING EXPENSES

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Operating expenses	14,664	9,820	(4,844)	-49
As a percentage of total revenue	40%	41%		

For the three months ended December 31, 2005, operating expenses were higher than the prior year period by $4.8 million or 49 percent. However, as a percentage of revenue, operating expenses were relatively consistent at 40 percent compared to the prior year period of 41 percent. As compared to the annual improvement in operating expenses as a percentage of revenue, the fourth quarter improvement was not as significant. The primary reason for this was the Trust experiencing higher than usual maintenance activities for the quarter. Equipment maintenance that the Trust would usually complete in the second and third quarter of the year, but was unable to complete due to higher utilization levels during this time frame was required to be completed during the fourth quarter of fiscal 2005.

GENERAL AND ADMINISTRATIVE EXPENSES

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
General and administrative expenses	6,988	4,247	(2,741)	-65
As a percentage of total revenue	19%	18%		

General and administrative expenses (G&A) were $2.7 million or 65 percent higher than the prior year period. However, as a percentage of revenue, G&A remained relatively consistent as it was 19 percent for the fourth quarter of 2005 as compared to 18 percent for the prior year period. The reasons for the dollar increase in the fourth quarter are consistent with the discussion of the annual G&A (refer to the "Results of Operations – General and Administrative Expenses" section of this MD&A for further details).

DEPRECIATION AND AMORTIZATION EXPENSES

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Depreciation and amortization expenses	4,127	3,041	(1,086)	-36

For the quarter ended December 31, 2005, depreciation and amortization expenses were higher than the prior year period by $1.1 million or 36 percent. As discussed in the annual depreciation and amortization narrative (refer

to the "Results of Operations – Depreciation and Amortization Expenses" section of this MD&A for further details), intangible assets associated with the recent strategic business acquisitions, significant capital expenditures and utilization based depreciation were the reasons for the increase.

INTEREST ON LONG-TERM DEBT EXPENSE

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Interest on long-term debt expense	618	376	(242)	-64

Interest on long-term debt expense increased to $0.6 million for the fourth quarter of 2005, representing an increase of $0.2 million or 64 percent over the prior year period. The interest cost (expressed as a percentage of the average long-term debt outstanding during the period) was 5.2 percent for the three months ended December 31, 2005, compared to 5.7 percent for the comparable period of 2004.

LOSS ON SALE OF EQUIPMENT

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Loss on sale of equipment	490	1,161	671	58

For the three months ended December 31, 2005, the loss on sale of equipment amounted to $0.5 million compared to a loss of $1.2 million for the prior year period. The decrease in the quarter-over-quarter loss was the result of the Trust essentially completing its asset rationalization program as discussed in the annual loss on sale of equipment (refer to the "Results of Operations – Loss on Sale of Equipment" section of this MD&A for further details).

PROVISION FOR INCOME TAXES

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Provision for income taxes	1,227	205	(1,022)	-499
Effective income tax rate	12%	4%		

The current tax provision of $0.1 million and future tax provision of $1.1 million, resulted in a net income tax provision of $1.2 million and an effective income tax rate of 12 percent for the three months ended December 31, 2005.

INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Income attributable to non-controlling interest	245	215	(30)	-14

Income attributable to non-controlling interest was $0.2 million for the fourth quarter of 2005 as compared to $0.2 million for the prior year period (refer to the "Results of Operations – Income Attributable to Non-controlling Interest" section of this MD&A for further details).

NET INCOME

(in thousands of CAD, except otherwise noted)	2005	2004	$ Change	% Change
Net income	8,602	4,259	4,343	102
Earnings per Unit – diluted	0.33	0.22	0.11	50

For the three months ended December 31, 2005, net income increased 102 percent to $8.6 million ($0.33 per Unit diluted) compared to net income of $4.3 million ($0.22 per Unit diluted) for the same period of 2004.

PROPOSED TRANSACTIONS

Management is actively reviewing several proposed transactions, including acquisition opportunities, however none of these opportunities are reasonably certain to occur as of the date of this MD&A.

CRITICAL ACCOUNTING ESTIMATES

This MD&A of Peak's financial condition, results of operations and cash flows is based on its consolidated financial statements which are prepared in accordance with Canadian GAAP. The Trust's significant accounting policies are described in note 1 to its consolidated financial statements. In preparation of the Trust's consolidated financial statements, management is required to make estimates and assumptions based on information available as of the date of the preparation of the consolidated financial statements that affect the reported amounts of assets, liabilities, revenue, expenses and the disclosure of contingent assets and liabilities for the periods reported. These estimates and judgements are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these amounts. The most significant accounting estimates are detailed below.

VALUATION OF ACCOUNTS RECEIVABLE

The Trust performs periodic credit evaluations of its customers and grants credit based upon credit checks, past history and financial condition. Customer payments are monitored and a valuation allowance is established based upon specific situations. The Trust's history of bad debt losses has been within expectations and generally limited to specific customer circumstances, however given the cyclical nature of the oil and gas industry and the inherent risk of production and exploration activities, a customer's ability to fulfil its obligations can change suddenly and without notice.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, which include property and equipment, intangibles and goodwill, comprise the majority of the Trust's assets. The carrying value of these assets is periodically reviewed for impairment whenever events or changes in circumstances indicate that their carrying value may be impaired. This requires the Trust to forecast future cash flows to be derived from the utilization of these assets based upon assumptions about future industry conditions. Significant, unanticipated changes to these assumptions could require an impairment provision in the future. During the fourth quarter of 2005 the Trust completed its goodwill assessment resulting in the conclusion that there was no impairment to the carrying value.

DEPRECIATION AND AMORTIZATION

The Trust's property and equipment and its intangible assets are depreciated and amortized based upon estimated useful lives and salvage values. These estimates may change as more experience is gained, market conditions change or new technological advancements are made.

INCOME TAXES

As a mutual fund trust for purposes of the *Income Tax Act* (Canada), the Trust is only subject to statutory income taxes on taxable income not distributed to Unitholders. In addition, the Trust does not recognize any future income tax assets or liabilities on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) in the Trust. The Trust's corporate subsidiaries are subject to statutory corporate income taxes, federal large corporation taxes, certain provincial capital taxes and certain state taxes and they follow the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences", and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Valuation allowances are established to reduce future tax assets when it is more likely than not that some portion or all of the asset will not be realized. Estimates of future taxable income and the continuation of tax planning arrangements have been considered in assessing the utilization of available tax losses. Changes in circumstances and assumptions may require changes to the valuation allowances with the Trust's future tax assets.

FINANCIAL AND OTHER INSTRUMENTS

RISK MANAGEMENT ACTIVITIES

A concentration of credit risk on the Trust's trade accounts receivable exists as they are virtually all derived from the oil and gas industry. Overall significant long-term changes in the geopolitical, economic or environmental conditions, as they relate to the oil and gas industry, could adversely impact the Trust's ability to realize on its accounts receivable. The amount of this impact is not determinable. The Trust manages this risk through various internal processes including credit checks, special conditions applied to customers based on historical experience, and management of accounts receivable exposure to any one customer during any one period. Except as disclosed in the following paragraph, the Trust does not have a significant exposure to any individual customer or other parties.

The Trust has one customer which represents in excess of 10 percent of revenue for 2005. Revenue attributable to this customer was $23.3 million (2004 – $12.7 million) of which $19.5 million (2004 – $9.0 million) relates to the Trust's Drilling Services operating segment and $3.7 million (2004 – $3.7 million) relates to the Trust's Production Services operating segment.

FAIR VALUES

The carrying values of cash and cash equivalents, accounts receivable, income taxes recoverable, prepaid expenses, accounts payable and accrued liabilities and distributions payable approximate their fair value due to the relatively short period of maturity of these instruments. At December 31, 2005, the long-term debt has a fair value of $37.6 million (2004 – $20.0 million). The fair value was calculated using an interest rate of 6.0 percent, which represents management's estimate of the interest rate in effect at December 31, 2005 for similar debt facilities.

INTEREST RATE RISK

Through its use of long-term debt, the Trust is exposed to interest rate risk as its debt has fixed and floating rates. Peak utilizes long-term debt to fund growth capital expenditures and business acquisitions, as required. Management employs several methods to implement its strategy of minimizing this risk. The most significant of these being the discipline of only utilizing the Trust's debt facilities to fund growth capital expenditures and strategic business acquisitions that will provide additional cash flow to service the debt outstanding while funding maintenance capital expenditures and cash expenses through operating activities. Secondly, management strategically maintains relatively low levels of debt as evidenced by its 0.21 to 1.00 (2004 – 0.14 to 1.00) debt to equity ratio, so that an increase in interest rates can be serviced by operating activities. Furthermore, management has secured $30.0 million of its current debt at a fixed rate of 5.8 percent with no requirement of repayment of principal for seven years.

FOREIGN EXCHANGE

The Trust has an exposure to foreign currency exchange rates, primarily because of its operations in the United States of America, where both carrying values and earnings are subject to foreign exchange risk. Currently, management believes these operations are not significant enough to warrant an active management program to mitigate the foreign exchange exposure.

BUSINESS RISKS

GENERAL

Certain activities of the Trust are affected by factors that are beyond its control or influence. The business and activities of the Trust are directly affected by fluctuations in the levels of exploration, development and production activities carried on by its customers which, in turn, is dictated by numerous factors, including world energy prices and government policies. Any change in Government policy on incentives could have a significant impact on the oilfield services industry in Canada.

INDUSTRY CONDITIONS

The oil and gas services industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. These companies base their capital expenditures on several factors, including but not limited to hydrocarbon prices, production levels of their reserves and access to capital. Oil and gas producers and explorers tend to examine long-term fundamentals affecting the foregoing factors before they adjust their capital budgets to reflect those factors. In recent years, commodity prices, and therefore, the level of drilling, production and exploration activity have been volatile. Any prolonged, substantial reduction in commodity prices will likely affect the activity levels of the exploration and production companies and the demand for Peak's products and services. A significant prolonged decline in commodity prices could have a material adverse impact on Peak's business, financial condition, results of operations and cash flows.

CREDIT RISK

Effectively all of the Trust's accounts receivable are with customers involved in the oil and gas industry, whose revenues may be impacted by fluctuations in commodity prices. Although collection of these receivables could

be influenced by economic factors affecting the industry, management considers the risk of a significant loss to be remote at this time.

COMPETITION

The products and services that Peak offers are highly competitive. Peak competes with several large national and multinational companies that have greater financial resources than the Trust. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Trust or that new competitors will not enter the various markets in which the Trust is active. In certain aspects of its business, Peak also competes with at number of small and medium-sized companies, which, like the Trust, have certain competitive advantages such as low overhead costs and specialized regional strengths.

ACCESS TO EQUIPMENT AND RELATIONSHIPS WITH KEY SUPPLIERS

The ability of Peak to compete and expand will be dependent, in part, on having access, at a reasonable cost, to equipment, parts and components, which are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new and competitive technologies. Although the Trust has relationships with various key suppliers, there can be no assurance that those sources of equipment parts, components or relationships with key suppliers will be maintained. If these are not maintained, Peak's ability to compete may be impaired. The Trust is able to access certain distributors and secure discounts on parts and components that would not be available if it were not for its relationship with certain key suppliers. Should these relationships cease, the availability and cost of securing certain equipment and parts may be adversely affected.

EMPLOYEES

The success of the Trust is dependent upon Peak's key personnel. Any loss of the services of such persons could have a material adverse impact on the business and operations of the Trust. The ability of the Trust to expand its services is dependent upon Peak's ability to attract and retain required additional qualified employees. The ability to secure the services of personnel can be significantly constrained in times of strong industry activity.

ENVIRONMENTAL LIABILITY RISKS

Certain operations of Peak routinely deal with natural gas, oil and other petroleum products. Peak has programs to address compliance with current environmental standards and monitors its practices concerning handling of environmentally hazardous materials, however, there can be no assurance that Peak's procedures will prevent environmental damage occurring from spills of materials handled by the Trust or that such damage has not already occurred. As a result of its fabrication and refurbishing operations, the Trust also generates or manages hazardous wastes, such as solvents, thinners, waste paint, waste oil and washdown wastes.

Although the Trust strictly enforces a program to identify and address contamination issues before acquiring or leasing properties, and uses generally accepted operating and disposal practices, hydrocarbons or other wastes may have been disposed of or released on or under properties owned, leased, or operated by the Trust prior to the Trust owning, leasing or operating these properties. These properties and the wastes disposed thereon may be subject to environmental laws that could require the Trust to remove the wastes or re-mediate sites where they have been released.

INSURANCE AND POTENTIAL OPERATING RISKS

Peak has a comprehensive insurance and risk management program in place to protect its assets and operations. This program meets or exceeds industry standards. The Trust also has programs in place to ensure it meets or exceeds current environmental standards. Peak's internal safety procedures include detailed safety and operating procedures, as well as internal and external safety and environmental response and operating training for all employees. The Vice President, Operations and the operational management are required, in the event of any incident, to report any such incidents to the Vice President, Health, Safety, Environment and Risk Management who will evaluate based on a predetermined scale of severity. The incident is then reported the to the Senior Vice President and the President and Chief Operating Officer. The Trust's operations remain subject to risks inherent in the oil and gas industry, such as equipment defects, malfunction, failures and natural disasters. These risks could expose the Trust to liabilities associated with personal injury, loss of life, business interruption, property damage or environmental pollution.

Although the Trust has analyzed its risk profile and obtained, in management's opinion, adequate insurance against certain of the risks to which it is exposed, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Trusts liabilities. If the Trust were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, its financial condition, results of operations and cash flows could be materially adversely affected.

ACCESS TO ADDITIONAL FINANCING

The Trust has secured adequate financing facilities to meet its current growth requirements, however it may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, to undertake capital expenditures or business acquisitions. There can be no assurance that additional financing will be available to the Trust when needed or on terms acceptable to the Trust. The Trust's inability to access financing to support ongoing operations or to fund capital expenditures or business acquisitions could limit the Trust's growth and may have a material adverse impact on the Trust.

SEASONALITY

The Trust's operations are carried out in western Canada and the mid-west United States of America. The ability to move heavy equipment in oil and gas fields is dependant on weather conditions, whereby thawing in the spring renders many secondary roads incapable of supporting heavy equipment until the ground is dry. In addition, activity in more northern parts of Canada is accessible only in winter months where the ground is frozen enough to support the equipment. As a result, the Trust's activity generally follows along with this seasonality, whereby activity is traditionally higher in the first and fourth quarter of the year and lower in the second and third quarter. The Trust provides access matting used for constructing roads, pipeline rights-of-way and drilling locations in remote areas of Western Canada which somewhat mitigates its risk to this seasonality. Access matting activity is traditionally highest throughout the second and third quarters of the year, which historically, drilling activities have had challenges accessing certain drilling locations.

FAILURE TO REALIZE ANTICIPATED BENEFITS OF ACQUISITIONS AND DISPOSITIONS

The Trust makes business acquisitions and dispositions of product lines and assets in the ordinary course of business. Achieving the benefits of business acquisitions depends in part on successfully consolidating functions and integrating operations, equipment and procedures in a timely and efficient manner. Management has several

years experience through successfully completing numerous acquisitions and has developed a post acquisition integration strategy to facilitate the timely integration of acquired businesses. In addition, management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets will be periodically disposed of, so that the Trust can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Trust, if disposed of, could be expected to realize less than their carrying value in the Trust's consolidated financial statements.

CORPORATE GOVERNANCE

MANAGEMENT ACTIVITIES

The regulatory and statutory compliance environment in Canada is rapidly evolving to ensure effective corporate governance frameworks exist within publicly held entities. These standards involve ensuring more timely, accurate and complete financial reporting and disclosures. Of the recently added compliance requirements, the most significant expenditure of resources for the Trust has and will involve the requirements of the Canadian Securities Administrators' ("CSA") Multilateral Instrument ("MI") 52-109.

For the year ended December 31, 2005, Peak's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are required to personally file annual certificates on the accuracy and completeness of Peak's financial reporting. In addition, the annual certificate requires the CEO and CFO to certify that there are adequate disclosure controls and procedures in place, which they have evaluated the effectiveness thereof, and have concluded are effective for the period covered (commonly referred to as "Modified" certifications). Peak's CEO and CFO have filed the necessary annual certifications for fiscal 2005.

In the future, in addition to the above Modified certifications, Peak's CEO and CFO will be required to personally file quarterly and annual certificates confirming that there are adequate internal controls over financial reporting and that the internal controls over financial reporting have been evaluated as to their effectiveness (annual certification only) and the potential of a material weakness or changes in internal controls over financial reporting have been disclosed (commonly referred to as "Full" certifications).

The Trust is currently working on a number of projects to support the CEO and CFO certifications to ensure it will be able to meet the regulatory and statutory requirements. Management views these initiatives as an opportunity to enhance the transparency of its financial reporting and to streamline processes and procedures to become more efficient which will in turn enhance Unitholder value.

The Trust has and plans to add qualified internal and external resources to enhance its corporate governance framework. In addition, Peak has retained the services of an external advisor who is not related to the Trust's external auditors to assist the Trust on these initiatives. During 2005, the Trust expended $0.4 million directly on these initiatives and expects to expend a similar amount over the next year to complete these initiatives.

DISCLOSURE CONTROLS AND PROCEDURES

Peak's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis so that decisions regarding required disclosures in the Trust's annual filings, interim filings and other disclosure

mediums can be made. These disclosure controls and procedures are not expected to prevent or detect all errors or fraud. A control system, no matter how well designed or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

As of the end of the period covered by this MD&A, Peak's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures, under the supervision and participation of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Peak's disclosure controls and procedures, as defined in MI 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings are effective to ensure that material information relating to the Trust is made known to management on a timely basis and is included in this report.

NON-GAAP MEASURES

EBITDA

EBITDA is defined as earnings before interest, taxes, depreciation and amortization and other items. EBITDA is not a recognized measure under Canadian GAAP. Management believes, in addition to net income, EBITDA is a useful supplemental measure as it provides an indication of the results generated by Peak's principle business activities prior to consideration of how these activities are financed or how the results are taxed in various jurisdictions. Readers should be cautioned, however, that EBITDA should not be construed as an alternative to net income determined in accordance with Canadian GAAP as an indicator of the Trust's performance. Peak's method of calculating EBITDA may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies.

The following is a reconciliation of EBITDA to net income:

	Three months ended December 31,		Year ended December 31,	
(in thousands of CAD)	**2005**	2004	**2005**	2004
EBITDA	**15,325**	9,821	**43,103**	24,649
Less:				
Depreciation and amortization	**4,127**	3,041	**12,780**	10,028
Interest on long-term debt	**618**	376	**1,672**	1,154
Loss on sale of equipment	**490**	1,161	**1,721**	2,601
Loss on sale of equipment held for sale	**16**	-	**-**	17
Impairment loss on equipment and equipment held for sale	**-**	590	**100**	590
Reorganization costs	**-**	-	**-**	3,927
Add:				
Gain on sale of equipment held for sale	**-**	26	**8**	-
Recovery of loss on equity investment	**-**	-	**-**	114
	10,074	4,679	**26,838**	6,446
Provision for income taxes (reduction)	**1,227**	205	**1,963**	(1,495)
Income attributable to non-controlling interest	**245**	215	**804**	250
Net income	**8,602**	4,259	**24,071**	7,691

INCOME BEFORE CERTAIN ITEMS

Income before reorganization costs and equipment impairment losses is defined as income before the after-tax impact of reorganization costs and equipment impairment losses. Income before reorganization costs and equipment impairment losses is not a recognized measure under Canadian GAAP. Management believes, in addition to net income, income before reorganization costs and equipment impairment losses is a useful supplemental measure as it provides an indication of income before non-recurring items. Readers should be cautioned, however, that income before reorganization costs and equipment impairment losses should not be construed as an alternative to net income determined in accordance with Canadian GAAP as an indicator of the Trust's performance. Peak's method of calculating income before reorganization costs and equipment impairment losses may differ from other companies and, accordingly, income before reorganization costs and equipment impairment losses may not be comparable to measures used by other companies.

The following is a reconciliation of income before reorganization costs and equipment impairment losses to net income:

	Three months ended December 31,		Year ended December 31,	
(in thousands of CAD)	**2005**	2004	**2005**	2004
Income before reorganization costs and equipment impairment losses	**8,602**	4,651	**24,137**	10,690
Less:				
Reorganization costs (net of taxes)	**-**	-	**-**	2,607
Impairment loss on equipment and equipment held for sale (net of taxes)	**-**	392	**66**	392
Net income	**8,602**	4,259	**24,071**	7,691

FUNDS FROM OPERATIONS

Funds from operations is defined as funds generated from operating activities before changes in non-cash working capital balances. Funds from operations is not a recognized measure under Canadian GAAP. Management believes, in addition to cash flow provided by operating activities, funds from operations is a useful supplemental measure as it provides an indication of funds generated by operations before working capital adjustments. Readers should be cautioned, however, that funds from operations should not be construed as an alternative to cash flow provided by operating activities, determined in accordance with Canadian GAAP, as an indicator of the Trust's performance. Peak's method of calculating funds from operations, may differ from other companies and, accordingly, funds from operations may not be comparable to measures used by other companies.

The following is a reconciliation of funds from operations to cash flow provided by operating activities:

	Three months ended December 31,		Year ended December 31,	
(in thousands of CAD)	**2005**	2004	**2005**	2004
Funds from operations	**14,614**	9,434	**40,939**	19,474
Changes in non-cash working capital items	**440**	(3,241)	**(4,506)**	(1,822)
Cash flow provided by operating activities	**15,054**	6,193	**36,433**	17,652

CHANGES IN ACCOUNTING POLICIES

NON-CONTROLLING INTEREST

On January 19, 2005, amended March 8, 2005, the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA") issued EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts" that requires that exchangeable securities issued by a subsidiary of an income trust be reflected as either non-controlling interest or debt in the consolidated balance sheet unless they meet certain criteria. Among the criteria, EIC-151 requires that exchangeable securities be non-transferable in order to be classified as equity. The Exchangeable Shares issued by PESL are transferable to third parties and in accordance with EIC-151 have been reclassified to non-controlling interest. Previously, the Exchangeable Shares were reflected as a component of Unitholders' equity. In addition, the respective consolidated income or loss attributable to the non-controlling interest is reflected as a reduction to consolidated income or loss before non-controlling interest in the Trust's consolidated statements of operations. Furthermore, since the Exchangeable Shares were originally recorded in a manner consistent with the carrying value of PESL's shareholder equity, the exchange of Exchangeable Shares for Trust Units is recorded using "step acquisition" accounting, as the exchange represents the acquisition of the non-controlling interest for fair value. Finally, since the Exchangeable Shares are not presented as part of Unitholders' equity, the Exchangeable Shares are only considered as part of the calculation of diluted Earnings per Unit using the "if-converted" method. Prior periods have been retroactively restated.

STOCK-BASED COMPENSATION PLAN

Effective January 1, 2004, the Trust retroactively to January 1, 2002, adopted the new required Canadian accounting standards that apply the fair value method to all stock-based payments and awards. Under the fair value method, the Trust calculates the fair value of stock option grants or direct awards of stock and records the fair value as compensation expense over the vesting period of those grants and awards.

The impact of the retroactive adoption of changes in accounting policies to the consolidated financial statements was to increase (decrease) the following:

BALANCE SHEET December 31, 2004 *(in thousands of CAD)*	As reported	Change for stock based compensation	Change for non-controlling interest	As restated
Property and equipment	144,034	-	6,293	150,327
Future income taxes	24,788	-	2,116	26,904
Non-controlling interest	-	-	4,525	4,525
Exchangeable Shares	4,290	-	(4,290)	-
Trust Unit capital	135,343	-	4,339	139,682
Retained earnings (deficit)	337	-	(397)	(60)

BALANCE SHEET January 1, 2004 *(in thousands of CAD)*	As reported	Change for stock based compensation	Change for non-controlling interest	As restated
Contributed surplus	1,483	319	-	1,802
Retained earnings (deficit)	6,179	(319)	-	5,860

STATEMENT OF OPERATIONS For the year ended December 31, 2004 *(in thousands of CAD, except as noted)*	As reported	Change for stock based compensation	Change for non-controlling interest	As restated
Depreciation and amortization	9,806	-	222	10,028
Provision for future income taxes	(2,987)	-	(75)	(3,062)
Income attributable to non-controlling interest	-	-	250	250
Net income	8,088	-	(397)	7,691
Earnings per Unit – Basic	0.42	-	-	0.42
Earnings per Unit – Diluted	0.42	-	(0.01)	0.41

OUTLOOK

The outlook for Peak is very positive. Industry analysts' consensus is predicting that 2006 should see a 5 percent overall increase in drilling activity from 2005. In addition, the long-term energy fundamentals remain positive as worldwide energy demand continues to be strong. This being said, short-term price fluctuations driven by North American inventory levels may temper the aggressiveness of some oil and gas producers' and explorers' capital programs. However, in the near term, Peak believes this may give some of the smaller producers and explorers, who were unable to access equipment due to high demand, an opportunity to complete their capital programs, effectively replacing some of the anticipated demand decrease due to short-term price fluctuations. Furthermore, Peak believes the long-term energy fundamentals support strong overall industry activity levels for the foreseeable future.

The combination of this anticipated increase in activity levels, Peak's aggressive internal capital expenditure program during 2005, higher pricing for Peak's products and services and strategic business acquisitions completed during 2005 should allow Peak to generate record results for the coming year. For 2006, Peak's main focus will be on organic growth as it plans to execute on its largest internal capital expenditure budget in the history of the Trust. Management will also continue to seek out strategic business acquisition opportunities that offer complementary business lines along with opportunities to diversify and grow internally. Peak's bias on the acquisition front will continue to lean toward production related opportunities. Achieving an equitable balance between production related services and drilling related services remains one of management's key strategic goals.

Peak will continue to be opportunistic in its growth strategy and remains well positioned to take advantage of opportunities as they arise with its strong financial position, cash flow, disciplined payout ratio and access to capital.

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CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2005 and 2004

The consolidated financial statements of Peak Energy Services Trust (the "Trust"), Management Discussion and Analysis ("MD&A") and the related financial information presented in this annual report have been prepared by management, who are responsible for the integrity and fair presentation of the information presented. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles. The MD&A has been prepared in accordance with the requirements of securities regulators including National Instrument 51-102 of the Canadian Securities Administrators.

The consolidated financial statements, MD&A and related financial information reflect amounts which must, of necessity, be based on informed estimates and judgments of management with appropriate consideration to materiality. The financial information presented elsewhere in this annual report is fairly presented and consistent with that in the consolidated financial statements.

Management has implemented and maintained an accounting system and related internal controls and supporting procedures to provide reasonable assurance that assets are safeguarded and financial records are complete and accurate to provide reliable financial information.

The Audit Committee, appointed by the Board of Directors of Peak Energy Services Ltd., Administrators of the Trust, is comprised entirely of independent directors who are not officers or employees of the Trust. The Audit Committee is responsible for reviewing the consolidated financial statements, MD&A and related financial information. Other key responsibilities of the Audit Committee include meetings with management and the external auditors to discuss the effectiveness of internal controls over the financial reporting process and the planning and results of the external audit. The Audit Committee also meets regularly with the external auditors without management present.

KPMG LLP, the external auditors appointed by the Unitholders of the Trust, have performed an audit of the consolidated financial statements and their report follows. The external auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom.

The Audit Committee has reviewed the consolidated financial statements, MD&A, and the related financial information with management and KPMG LLP. The consolidated financial statements, MD&A and the related financial information have been approved by the Board of Directors on the recommendation of the Audit Committee.

Peak Energy Services Ltd., Administrators of Peak Energy Services Trust:

Christopher E. Haslam, CMA, CBV
Chairman of the Board and Chief Executive Officer
Peak Energy Services Ltd.
February 23, 2006

Matthew J. Huber, CA, CMA
Chief Financial Officer
Peak Energy Services Ltd.
February 23, 2006

AUDITORS REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Peak Energy Services Trust (the "Trust") as at December 31, 2005 and 2004 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles

KPMG LLP

Chartered Accountants
Calgary, Alberta, Canada
February 23, 2006

CONSOLIDATED BALANCE SHEETS

DECEMBER 31 *(in thousands of CAD)*	2005	2004 *(restated-note 3)*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,826	$ 7,195
Accounts receivable	35,319	24,583
Income taxes recoverable	176	153
Prepaid expenses	1,237	845
	42,558	32,776
Property and equipment *(note 4)*	180,805	150,327
Equipment held for sale *(note 5)*	-	517
Deferred financing costs *(note 6)*	626	176
Intangibles *(notes 2 and 7)*	12,978	5,022
Goodwill *(note 2)*	32,395	16,836
	$ 269,362	$ 205,654
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 14,483	$ 9,550
Distributions payable *(note 8)*	2,251	1,834
Current portion of long-term debt *(note 10)*	918	2,381
Current portion of obligations under capital lease *(note 11)*	56	-
Trust capital payable *(note 2)*	-	1,736
	17,708	15,501
Long-term debt *(note 10)*	36,832	17,619
Obligations under capital lease *(note 11)*	103	-
Future income taxes *(note 12)*	34,437	26,904
Non-controlling interest *(note 13)*	987	4,525
Unitholders' equity:		
Trust Unit capital *(note 14)*	177,649	139,682
Contributed surplus *(note 15)*	1,483	1,483
Retained earnings (deficit)	163	(60)
	179,295	141,105
Commitments *(note 23)*		
Contingencies *(note 24)*		
	$ 269,362	$ 205,654

See accompanying notes to consolidated financial statements.

Approved by the Board of Peak Energy Services Ltd., Administrators of Peak Energy Services Trust:

Christopher E. Haslam, CMA, CBV
Chairman of the Board and Chief Executive Officer
Peak Energy Services Ltd.
February 23, 2006

Frederick A. Moore
Director
Peak Energy Services Ltd.
February 23, 2006

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

YEARS ENDED DECEMBER 31 *(in thousands of CAD, except per Unit amounts)*	2005	2004 *(restated-note 3)*
Revenue	$ 110,696	$ 70,325
Expenses:		
Operating	47,295	32,007
General and administrative	20,298	13,669
Depreciation and amortization *(note 17)*	12,780	10,028
Interest on long-term debt	1,672	1,154
	82,045	56,858
Income before other items	28,651	13,467
Other items:		
Loss on sale of equipment	1,721	2,601
Loss (gain) on sale of equipment held for sale	(8)	17
Impairment loss on equipment and equipment held for sale *(notes 4 and 5)*	100	590
Reorganization costs *(note 18)*	-	3,927
Recovery of loss on equity investment	-	(114)
	1,813	7,021
Income before income taxes and non-controlling interest	26,838	6,446
Provision for income taxes: *(note 12)*		
Current	630	1,567
Future (reduction)	1,333	(3,062)
	1,963	(1,495)
Income before non-controlling interest	24,875	7,941
Income attributable to non-controlling interest	804	250
Net income	24,071	7,691
Retained earnings (deficit), beginning of period	(60)	5,860
Reorganization costs *(note 14 (d))*	-	(2,118)
Distributions to Unitholders	(23,848)	(11,493)
Retained earnings (deficit), end of period	$ 163	$ (60)
Earnings per Unit: *(note 19)*		
Basic	$ 1.01	$ 0.42
Diluted	$ 1.00	$ 0.41

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31 *(in thousands of CAD)*	2005	2004 *(restated-note 3)*
Operating activities:		
Net income	$ 24,071	$ 7,691
Add (deduct) items not affecting cash:		
Amortization of deferred financing costs	138	126
Stock based compensation	-	119
Depreciation and amortization	12,780	10,028
Loss on sale of equipment	1,721	2,601
Loss (gain) on sale of equipment held for sale	(8)	17
Impairment loss on equipment and equipment held for sale	100	590
Reorganization costs	-	1,114
Future income taxes (reduction)	1,333	(3,062)
Non-controlling interest	804	250
	40,939	19,474
Changes in non-cash working capital items *(note 20)*	(4,506)	(1,822)
	36,433	17,652
Investing activities:		
Increase in loan receivable *(note 21)*	-	(120)
Repayment of loan receivable *(note 21)*	-	318
Business acquisitions *(note 2)*	(32,136)	(32,485)
Purchase of equipment	(23,404)	(28,416)
Proceeds on sale of equipment and equipment held for sale	5,173	8,032
	(50,367)	(52,671)
Financing activities:		
Increase in deferred financing costs	(588)	(237)
Repayment of operating line of credit *(note 9)*	-	(2,078)
Repayment of obligations under capital lease	(27)	-
Increase in long-term debt	36,750	20,000
Repayment of long-term debt	(19,000)	(20,773)
Issue of Trust Units, net of costs	18,861	35,242
Distributions to Unitholders *(note 8)*	(23,431)	(9,659)
Issue of share capital, net of costs *(note 14 (b))*	-	23,987
Cancellation of stock option plan *(note 14 (d))*	-	(4,268)
	12,565	42,214
Increase (decrease) in cash and cash equivalents	(1,369)	7,195
Cash and cash equivalents, beginning of period	7,195	-
Cash and cash equivalents, end of period	$ 5,826	$ 7,195

See accompanying notes to consolidated financial statements.

Supplemental information *(note 22)*

Peak Energy Services Trust (the "Trust") is a diversified energy services organization operating in western Canada and the mid-west United States of America. Through its operating segments, the Trust provides drilling and production services to oil and gas producers.

The Trust is an unincorporated open-end investment trust governed by the laws of the Province of Alberta, Canada, pursuant to a Trust Indenture dated March 26, 2004 between Peak Energy Services Ltd. ("PESL") and Valiant Trust Company ("Valiant" or the "Trustee"). Pursuant to section 193 of the *Business Corporations Act* (Alberta), under a Plan of Arrangement involving the Trust, PESL, Peak Commercial Trust ("PCT"), Peak Acquisition Corp. ("AcquisitionCo") and Peak Exchangeco Ltd., effective May 1, 2004, PESL amalgamated with AcquisitionCo with the successor company name being Peak Energy Services Ltd. (the "Company" or "PESL"). The Company is an indirect wholly-owned subsidiary of the Trust and has entered into an Administration Agreement with Valiant to be the administrator of the Trust.

Prior to the Plan of Arrangement effective date of May 1, 2004, the consolidated financial statements included the accounts of PESL, its subsidiaries and its partnerships, all of which were wholly-owned. After giving effect to the Plan of Arrangement, the consolidated financial statements include the accounts of the Trust, its subsidiaries and its partnership. For financial reporting purposes, the Trust is considered the continuing entity of PESL.

All of the operating assets of the Trust are held indirectly by PCT. The Trust owns 100 percent of the trust units of PCT. PCT's activities are financed through inter-entity interest bearing notes and inter-entity investment in trust units by the Trust. The business of PCT is carried on by PESL, Peak Energy Services Partnership ("PESP") and Peak Energy Services USA, Inc. ("Peak USA"). PCT directly and indirectly owns 100 percent of the common shares of PESL (excluding the Exchangeable Shares – see note 13), 100 percent of the partnership interest in PESP and 100 percent of the common shares of Peak USA. PESL, PESP and Peak USA's activities are financed directly or indirectly through inter-entity interest bearing notes, inter-entity non-interest bearing accounts, third party interest bearing debt, inter-entity investment in common shares, inter-entity investment in partnership interest and third party investment in Exchangeable Shares.

The Trustee may declare payable to Unitholders all or any part of the Distributable Cash of the Trust. Distributable Cash, as defined in the Trust Indenture, is calculated as all of the interest, distributions, dividends and principal repayments from PCT and other permitted investments less all expenses and liabilities of the Trust. Furthermore, all of Net Income and Net Realized Capital Gains, as defined in the Trust Indenture, in accordance with the provisions of the *Income Tax Act* shall be payable to Unitholders in cash or Trust Units so that the Trust will not have any liability for tax under the *Income Tax Act*. In addition to any amounts otherwise payable to Unitholders, as defined in the Trust Indenture, any amount may be declared payable by the Trustee upon recommendation of the Administrator of the Trust. PESL may, in its sole discretion, withhold reasonable reserves including Capital Expenditure Reserves, in declaring payable the Distributable Cash, as defined in the PCT Indenture.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements include the accounts of the Trust and its subsidiaries and partnership, all of which are wholly-owned.

(b) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on information available as of the date of the consolidated financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses for the years reported. The most significant of these are the estimated valuation of accounts receivable, valuation of goodwill, revenues recognized using the percentage of completion method, impairment loss on equipment, impairment loss on equipment held for sale and estimates of various taxation matters. Actual results could differ from these estimates.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments with maturities of less than three months.

(d) Accounts receivable

Accounts receivable are recorded based on the revenue recognition policy (see note 1 (n)) and are presented net of allowance for doubtful accounts. Allowance for doubtful accounts is adjusted by management based on specific doubtful receivables.

(e) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets using the following methods and rates:

	Methods	Rates
Vehicles and equipment	Declining balance	20%
Vehicles and equipment	Straight-line	5 years
Machinery and equipment	Declining balance	10 to 20%
Machinery and equipment	Straight-line	3 to 10 years
Buildings	Straight-line	5 to 25 years
Office and computer equipment	Declining balance	10 to 30%
Leasehold improvements	Straight-line	10 years

Depreciation on certain rental equipment is provided on a utilization method based upon estimated useful lives of up to 5,475 rental days.

(f) Long-lived assets

Management assesses the carrying value of long-lived assets on a periodic basis for indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, a test for impairment is carried out by comparing the carrying value of the asset to its net fair value. If the carrying amount is greater than the net fair value, the asset would be considered impaired and an impairment loss would be realized to reduce the asset's carrying value to its estimated fair value.

(g) Deferred financing costs

Costs associated with long-term debt are deferred and amortized over the term of the debt. Amortization is included in general and administrative expenses.

(h) Intangibles

Intangibles, consisting of customer relationships, non-compete covenants and patents, are recorded at cost and are amortized using the straight-line method over their terms of three to 10 years. Amortization is included in depreciation and amortization expenses.

(i) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized and is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting segment is compared to its fair value. When the fair value of a reporting segment exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of the reporting segment exceeds its fair value, in which case the implied fair value of the reporting segment is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of the goodwill is determined in a business combination described in the previous paragraph, using the fair value of the reporting segment as if it was the purchase price. When the carrying amount of the reporting segment exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(j) Leases

Leases are classified as either capital or operating. Leases that effectively transfer substantially all of the risks and rewards of ownership to the Trust are capital leases and are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured as the present value of minimum lease payments. The asset is amortized on a straight-line basis over the term of the lease but not in excess of its useful life. Obligations recorded under capital leases are reduced by the lease payments, net of imputed interest. All other leases are accounted for as operating leases and rental payments are recorded as expenses on a straight-line basis over the term of the related lease.

(k) Income taxes

The Trust is a mutual fund trust for purposes of the *Income Tax Act* (Canada), and is only subject to statutory income taxes on taxable income not distributed to the Unitholders. The Trust follows the CICA Handbook EIC-107 guidance, whereby it does not recognize any future income tax assets or liabilities on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) in the Trust.

The Trust's corporate subsidiaries are subject to statutory corporate income taxes, federal large corporation taxes ("LC taxes"), certain provincial capital taxes ("PC taxes") and certain state taxes and they follow the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences", and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Provision for income taxes is the sum of the Trust's corporate subsidiaries' corporate income taxes, LC taxes, PC taxes, state taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

(l) Non-controlling interest

Non-controlling interest represents the Exchangeable Shares issued by PESL which are only exchangeable for Units of the Trust. These Exchangeable Shares were issued upon reorganization into the Trust. Non-controlling interest is recognized based on the carrying value of the Exchangeable Shares on issuance together with a portion of the Trust's retained earnings attributable to the non-controlling interest subsequent to their issuance. Conversion of the Exchangeable Shares into Trust Units is accounted for using step-acquisition accounting, as the conversion represents the acquisition of the non-controlling interest for fair value. Net income is reduced for the portion of earnings attributable to the non-controlling interest. As the Exchangeable Shares are exchanged for Trust Units, the non-controlling interest is reduced on a pro-rata basis and the fair value is attributed to property and equipment with a corresponding increase in Unitholders' equity.

(m) Earnings per Unit

Prior to the commencement of the Trust on May 1, 2004, the diluted per share amounts were calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

Basic and diluted earnings per Unit calculations for the period from the commencement of the Trust on May 1, 2004 to December 31, 2005 were based on the weighted average number of Trust Units outstanding. Diluted per Unit amounts, for the years ended December 31, 2005 and 2004, have been calculated on the "if-converted" basis of the outstanding Exchangeable Shares at the average exchange ratio during the period.

For comparative purposes only, the basic and diluted earnings per Unit calculations presented for the periods prior to the commencement of the Trust on May 1, 2004, were based on the equivalent weighted average number of Trust Units that would have been outstanding if the Trust had existed on the comparative date presented.

(n) Revenue recognition

The Trust's services are provided based upon orders and contracts with its customers that include fixed or determinable prices on the basis of either: (1) a services rendered method, with agreed upon monthly, daily, hourly or job rates or (2) a percentage of completion method, calculated as the percentage that equipment under contract was utilized proportionate to the overall utilization anticipated under the contract.

(o) Market based compensation

The Trust has a market based compensation plan (the "Market Plan") which is described in note 16.

Compensation expense for rights ("Rights") granted under the Market Plan is calculated and recognized over the period vested. The Trust measures the compensation cost related to the Rights as the amount by which the quoted market value of the Units of the Trust plus distributions declared during the period covered by the vested Rights exceeds the value specified at the time of granting. Changes, either increases or decreases, in the quoted market value of the Units between the date of grant and the measurement date result in a change in the measure of compensation for the Rights. Compensation cost accrued during the service period is not adjusted below zero. The offsetting adjustment for compensation cost of the period is recorded in the period in which the changes in the market value occur. The accrued compensation cost for a Right that is forfeited or cancelled is adjusted by decreasing compensation cost in the period of forfeiture or cancellation.

(p) Foreign exchange

Accounts of the Trust's integrated foreign operations are translated to Canadian dollars using average exchange rates for the year for revenue and expenses. Monetary assets and liabilities are exchanged at the year-end current exchange rate and non-monetary assets and liabilities are translated using the historical exchange rate. Gains or losses resulting from these translation adjustments are included in net income.

(q) Business acquisitions

Business acquisitions are accounted for using the purchase method. The purchase price of a business acquisition is allocated to its identifiable net assets, including identifiable intangible assets, on the basis of estimated fair market values at the date of acquisition, with any excess of the purchase price allocated to goodwill. Goodwill arising on business acquisitions is allocated to the reporting unit to which it relates.

(r) Stock based compensation

PESL had a stock option plan (the "Stock Option Plan") which is described in note 14 (d).

The Trust utilizes the fair value method, whereby the Trust calculates the fair value of stock option grants or direct awards of stock and records the fair value as compensation expense over the vesting period of those grants and awards.

(s) Comparative figures

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

2. BUSINESS ACQUISITIONS

The following business acquisitions have been accounted for by the purchase method with the results of operations of the acquired business being included in the consolidated financial statements from the date of acquisition.

For the year ended December 31, 2005

(a) Sandman Rentals Inc.

On February 15, 2005, the Trust acquired certain operating assets of Sandman Rentals Inc. ("Sandman") for cash consideration of $665. These assets are classified as Production Services for segmented information purposes.

Based in Brooks, Alberta, Canada, Sandman provides high capacity blow-back tanks and related transportation services within the production services side of the oil and gas industry.

(b) Competition Wireline Services Ltd.

On July 1, 2005, the Trust acquired all of the issued and outstanding shares of Competition Wireline Services Ltd. and 1177868 Alberta Ltd. (collectively referred to as "Competition") for consideration of $31,471, subject to a one year earn-out adjustment of between nil and $6,000, based on certain financial targets being met by June 30, 2006, to be calculated on that date. Additional consideration, if any, will be added to goodwill and paid in cash or Trust Units valued at that time. This transaction was comprised of $24,971 in cash and the issuance of 637,254 Trust Units with a fair market value of $6,500. These assets are classified as Production Services for segmented information purposes.

Competition provides production and completion wireline services to oil & gas producers in the northwest and central areas of Alberta, Canada and northeast British Columbia, Canada.

(c) Source Oilfield Rentals Inc.

On September 15, 2005, the Trust acquired all of the operating assets of Source Oilfield Rentals Inc. ("Source") for consideration of $9,500. This transaction was comprised of $6,500 in cash and the issuance of 252,313 Trust Units with a fair market value of $3,000. These assets are classified as Drilling Services for segmented information purposes.

Based in Red Deer and Grande Prairie, Alberta, Canada, Source provides drilling fluid recovery systems for the purpose of aiding in the cleaning of hydrocarbon based drilling fluid from the drill cuttings on location.

The allocations of the purchase prices are as follows:

	Sandman	Competition	Source	Total
Equipment	$ 665	$ 14,821 (a)	$ 4,072	$ 19,558
Customer relationships	-	6,400 (b)	900 (f)	7,300
Non-compete covenants	-	1,700 (c)	800 (g)	2,500
Goodwill	-	11,567 (d)	3,728 (h)	15,295
Future income taxes	-	(4,547) (e)	-	(4,547)
Working capital	-	1,530	-	1,530
Total consideration	665	31,471	9,500	41,636
Fair value of Trust Units issued	-	(6,500)	(3,000)	(9,500)
Total cash consideration	$ 665	$ 24,971	$ 6,500	$ 32,136

The allocation of the purchase price has been adjusted from the previously disclosed amounts to reflect the final determination of allocation of the purchase price as follows:

(a) equipment increased by $1,724 from $13,097
(b) customer relationships increased by $6,400 from nil
(c) non-compete covenants decreased by $400 from $2,100
(d) goodwill decreased by $5,128 from $16,695
(e) future income tax liability increased by $2,597 from $1,950
(f) customer relationships increased by $900 from nil
(g) non-compete covenants decreased by $100 from $900
(h) goodwill decreased by $800 from $4,528

For the year ended December 31, 2004

(a) BF Oilfield Services Ltd.

On May 18, 2004, the Trust acquired all of the operating assets of BF Oilfield Services Ltd. ("BF") for cash consideration of $3,513, subject to a one year earn-out adjustment of between nil and $2,000 calculated on May 17, 2005. The Trust paid an additional $2,000 in consideration as certain financial targets were met. This amount was paid by the issuance of the equivalent value of Trust Units valued at the time of the issuance. The additional consideration was added to goodwill and the offset was credited to Trust Unit Capital. These assets are classified as Production Services for segmented information purposes.

Based in Brooks, Alberta, Canada, BF is engaged in the rental and sale of various types of tanks used within the production services side of the oil and gas industry.

(b) Davlin Holdings Ltd., Grand Tank (International) Inc. and DavCan Holdings Ltd.

Effective November 1, 2004, the Trust acquired all of the issued and outstanding shares of Davlin Holdings Ltd., Grand Tank (International) Inc. and DavCan Holdings Ltd. (collectively referred to as "Davlin") for cash consideration of $28,972. These assets are classified as Drilling Services for segmented information purposes.

Based in Grande Prairie, Alberta, Canada, Davlin is engaged in the rental of auger tanks, high capacity centrifuges and shale tanks along with other ancillary oilfield rental equipment that is part of the drilling services side of the oil and gas industry.

The allocations of the purchase prices are as follows:

	BF	Davlin	Total
Equipment	$ 1,117	$ 17,209	$ 18,326
Non-compete covenants	2,000	2,500	4,500
Goodwill	2,396 (1)	12,004	14,400
Future income taxes	-	(4,088)	(4,088)
Working capital	-	1,347 (2)	1,347
Total consideration	5,513	28,972	34,485
Earn-out adjustment	(2,000) (1)	-	(2,000)
Total cash consideration	$ 3,513	$ 28,972	$ 32,485

(1) Includes a post-closing adjustment of $2,000.
(2) Includes cash of $9.

3. CHANGES IN ACCOUNTING POLICY

(a) Non-controlling interest

Effective June 30, 2005, the Trust adopted new Canadian accounting standards on a retroactive basis, with restatement of prior periods, related to the classification of Exchangeable Shares. Exchangeable Shares are reclassified as non-controlling interest. Previously they were included within equity.

(b) Stock based compensation

Effective January 1, 2004, the Trust adopted the revised Canadian accounting standard with respect to accounting for stock based compensation. Under this new standard, the fair value of common share purchase options are calculated at the date of grant and that value is recorded as compensation expense over the vesting period.

Under the previous standard, no compensation expense was recorded when stock options were issued with any consideration received upon exercise credited to share capital.

The Trust has retroactively applied this standard, with restatement of prior years, to all common share purchase options granted since January 1, 2002.

The impact of the retroactive adoption of changes in accounting policies to the consolidated financial statements was to increase (decrease) the following:

BALANCE SHEET December 31, 2004	As reported	Change for stock based compensation	Change for non-controlling interest	As restated
Property and equipment	$ 144,034	$ -	$ 6,293	$ 150,327
Future income taxes	24,788	-	2,116	26,904
Non-controlling interest	-	-	4,525	4,525
Exchangeable Shares	4,290	-	(4,290)	-
Trust Unit capital	135,343	-	4,339	139,682
Retained earnings (deficit)	337	-	(397)	(60)

BALANCE SHEET January 1, 2004	As reported	Change for stock based compensation	Change for non-controlling interest	As restated
Contributed surplus	$ 1,483	$ 319	$ -	$ 1,802
Retained earnings (deficit)	6,179	(319)	-	5,860

STATEMENT OF OPERATIONS For the year ended December 31, 2004	As reported	Change for stock based compensation	Change for non-controlling interest	As restated
Depreciation and amortization	$ 9,806	$ -	$ 222	$ 10,028
Provision for future income taxes	(2,987)	-	(75)	(3,062)
Income attributable to non-controlling interest	-	-	250	250
Net income	8,088	-	(397)	7,691
Earnings per Unit – Basic	$ 0.42	$ -	$ -	$ 0.42
Earnings per Unit – Diluted	$ 0.42	$ -	$ (0.01)	$ 0.41

4. PROPERTY AND EQUIPMENT

2005	Cost	Accumulated depreciation	Net book value
Rental equipment	$ 182,181	$ 23,467	$ 158,714
Vehicles and equipment	15,243	2,248	12,995
Machinery and equipment	5,576	1,127	4,449
Land and buildings	2,381	368	2,013
Office and computer equipment	5,301	2,667	2,634
	$ 210,682	$ 29,877	$ 180,805

2004	Cost	Accumulated depreciation	Net book value
Rental equipment	$ 150,409	$ 15,591	$ 134,818
Vehicles and equipment	13,086	4,092	8,994
Machinery and equipment	3,862	999	2,863
Land and buildings	2,026	247	1,779
Office and computer equipment	4,030	2,157	1,873
	$ 173,413	$ 23,086	$ 150,327

Included in vehicles and equipment are assets under capital lease in the amount of $186 that have a net book value at December 31, 2005 of $172.

The business climate for the Trust's anchor services product line has declined dramatically. There has been a trend within certain segments of the oil and gas industry towards anchorless rigs which has significantly

reduced revenue opportunities. This has adversely impacted this product line's operating results and it does not appear that this market condition will change in the future. For the year ended December 31, 2005, management evaluated and determined that the carrying value of the assets within this product line exceeded their fair value, based on recent third party transactions and their industry knowledge, and recognized impairment losses of $100 to reduce the assets carrying value to management's estimate of their fair value. On April 29, 2005, the Trust sold all of the assets related to this product line. These assets are classified as Production Services for segmented information purposes.

5. EQUIPMENT HELD FOR SALE

As of December 31, 2003, the business climate for the Trust's drill string, pump and pipe equipment, tubulars and handling tools product lines had declined dramatically. Management evaluated and determined that these assets were non-core to its existing operations and it would be more beneficial to exit these market segments. Management committed to a plan to dispose of these product lines. All the assets classified as equipment held for sale have either been sold or written off as of December 31, 2005. For the year ended December 31, 2004, the assets classified to equipment held for sale were evaluated and an impairment loss of $590 was recognized to reduce the assets carrying value to management's estimate of their fair value less selling costs.

2004	Cost	Accumulated depreciation	Net book value
Drilling Services			
Drill string	$ 760	$ 592	$ 168
Pump and pipe equipment	469	299	170
	1,229	891	338
Production Services			
Tubulars	817	747	70
Handling tools	445	336	109
	1,262	1,083	179
	$ 2,491	$ 1,974	$ 517

6. DEFERRED FINANCING COSTS

2005	Cost	Accumulated amortization	Net book value
	$ 840	$ 214	$ 626

2004	Cost	Accumulated amortization	Net book value
	$ 252	$ 76	$ 176

7. INTANGIBLES

2005	Cost	Accumulated amortization	Net book value
Non-compete covenants	$ 8,125	$ 2,543	$ 5,582
Customer relationships	7,300	346	6,954
Other intangibles	500	58	442
Total	$ 15,925	$ 2,947	$ 12,978

2004	Cost	Accumulated amortization	Net book value
Non-compete covenants	$ 5,625	$ 1,095	$ 4,530
Other intangibles	500	8	492
Total	$ 6,125	$ 1,103	$ 5,022

8. DISTRIBUTIONS PAYABLE

During 2005, the Trust declared distributions of $0.99 per Unit (2004 – $0.61 per Unit) for a total of $23,848 (2004 – $11,493) of which $2,251 was paid on January 16, 2006, in respect of earnings to December 31, 2005 ($1,834 was paid January 17, 2005 in respect of earnings to December 31, 2004).

9. OPERATING LINE OF CREDIT

At December 31, 2005, the Trust has a demand operating line of credit to a maximum of the lesser of $5,000 (2004 – $5,000) or 75 percent (2004 – 75 percent) of the Trust's accounts receivable. The line of credit bears interest at the bank prime rate December 31, 2005, 5.00 percent (December 31, 2004 – 4.25 percent), or at banker's acceptance rates plus a variable stamping fee of 0.75 percent to 1.00 percent. The line of credit is secured by an unlimited guarantee, a general assignment of book debts, a demand debenture and a general security agreement.

10. LONG-TERM DEBT

	2005	2004
Extendable term revolving acquisition loan facility of $60,000 requiring no principal payments during the term, bearing interest at bank's prime rate plus 0.25 percent or at banker's acceptance rates plus a variable stamping fee of 1.50 percent to 1.75 percent. The facility expires on April 28, 2006 and can be renewed, at the lender's option, for an additional 364 day period. If not renewed, the loan is repayable over a period of two years, amortized over five years. The facility is secured by an unlimited guarantee, a general assignment of book debts, a demand debenture and a general security agreement.	$ 7,750	$ 20,000
Pursuant to an agreement dated August 31, 2005, the Trust negotiated a financing agreement for two term loan facilities of $30,000 and $20,000. On August 31, 2005, the term loan of $30,000 was drawn down and utilized to repay outstanding advances on the extendable term revolving acquisition loan facility. The term loan facility of $20,000 is available to be drawn down until June 30, 2006. The terms of the $30,000 facility are no set principal payments during the seven year term, bearing interest at 5.79 percent. The facilities are secured by a general securities agreement and Inter-Lender agreement.	30,000	-
	37,750	20,000
Less current portion	918	2,381
	$ 36,832	$ 17,619

Principal payments due are as follows:

2006	$ 918
2007	1,445
2008	5,387
2009	-
2010	-
thereafter	30,000
Total	$ 37,750

11. OBLIGATIONS UNDER CAPITAL LEASE

The Trust leases machinery and equipment under a capital lease agreement which expires on October 1, 2008 and bears interest at a rate of 11.5 percent. Repayment of the principal obligation was $27 in 2005. Interest paid during 2005 related to the obligation under the capital lease was $7.

	2005	2004
Obligations under capital lease	$ 159	$ -
Less current portion	56	-
	$ 103	$ -

The Trust is obligated to minimum lease payments for capital leases as follows:

2006	$ 56
2007	56
2008	47
2009	-
2010	-
Total	$ 159

12. INCOME TAXES

The income tax provision (reduction) differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 33.6 percent (2004 – 33.6 percent) to income before income taxes.

The reconciliation of the differences is as follows:

	2005	2004
Income before provision for income taxes and non-controlling interest	$ 26,838	$ 6,446
Statutory income tax rate	33.6%	33.6%
Expected income tax provision	9,023	2,167
Amounts included in Trust income	(7,514)	(3,596)
Capital taxes	425	299
Effect of tax rate changes	-	(847)
Non-deductible items	178	386
Other	(149)	96
	$ 1,963	$ (1,495)

The net future income tax liability is comprised of the following temporary differences:

	2005	2004
Future income tax assets:		
Non-capital losses	$ 4,866	$ 3,388
Share issue costs	354	494
Other	153	169
	5,373	4,051
Future income tax liabilities:		
Property and equipment	(36,882)	(30,295)
Intangibles and goodwill	(2,928)	(660)
	(39,810)	(30,995)
	$ (34,437)	$ (26,904)

At December 31, 2005, the Trust has accumulated losses for income tax purposes of $14,475 (2004 – $10,076) available as a deduction against future taxable income. These losses expire primarily during the years 2009 to 2012. In addition, the Trust has an unrecorded future income asset in the amount of $1,040 (2004 – $1,033) that is related to the Trust.

13. NON-CONTROLLING INTEREST

The non-controlling interest represents the Exchangeable Shares of PESL which are convertible at the option of the holder into Trust Units at any time. All Exchangeable Shares are required to be converted on or before May 1, 2009. The number of Trust Units issueable upon conversion is based upon the exchange ratio in effect at the conversion date. The exchange ratio, which was initially equal to one to one, is cumulatively adjusted each time a distribution is made to Unitholders. The adjustment to the exchange ratio is calculated by multiplying the distribution per unit by the exchange ratio immediately prior to the distribution and dividing by the market price of a Trust Unit immediately following distribution. The exchange ratio at December 31, 2005 was 1.17439 (December 31, 2004 – 1.06677).

EXCHANGEABLE SHARES OF PEAK ENERGY SERVICES LTD.	Number of shares shares (000's)	Amount
Issued pursuant to Plan of Arrangement, May 1, 2004	2,408	$ 12,872
Exchanged for Trust Units	(1,605)	(8,597)
Income attributable to non-controlling interest	-	250
Balance, December 31, 2004	803	$ 4,525
Exchanged for Trust Units	(692)	(4,342)
Income attributable to non-controlling interest	-	804
Balance, December 31, 2005	111	$ 987
Trust Units issuable on conversion at 1.17439	131	$ 987

The fair value attributable to non-controlling interest acquired is as follows:

	2005	2004
Exchangeable shares exchanged for Trust Units	$ 4,342	$ 8,597
Fair value bump on step-acquisition	3,264	4,324
Trust Unit capital issued	$ 7,606	$ 12,921

	2005	2004
Fair value bump on step-acquisition	$ 3,264	$ 4,324
Future income tax impact	1,653	2,190
Fair value attributed to property and equipment	$ 4,917	$ 6,514

14. TRUST UNIT CAPITAL AND SHARE CAPITAL

Pursuant to the terms of the Plan of Arrangement, the Trust acquired and cancelled all of the issued and outstanding common shares of PESL on May 1, 2004. Each PESL common shareholder, in exchange for two common shares of PESL, received one Trust Unit ("Unit") of the Trust or one Exchangeable Share which is exchangeable for a Trust Unit, subject to adjustment. Prior to the exchange, PESL had 39,059,932 shares outstanding, and subsequent to the exchange, there were 17,121,745 Trust Units and 2,408,221 Exchangeable Shares outstanding.

(a) Authorized

PEAK ENERGY SERVICES TRUST

The authorized Trust Unit capital of the Trust consists of an unlimited number of Trust Units.

PEAK ENERGY SERVICES LTD.

The authorized share capital of PESL consists of an unlimited number of common shares without nominal or par value.

The authorized Exchangeable Share capital of PESL consists of an unlimited number of Exchangeable Shares without nominal or par value.

(b) Share capital issued

COMMON SHARES OF PEAK ENERGY SERVICES LTD.	Number of shares (000's)	Amount
Balance, December 31, 2003	33,100	$ 79,942
Shares issued	5,325	24,458
Exercise of stock options	635	866
Less share issue costs (net of future income taxes of $462)	-	(875)
Balance, April 30, 2004, prior to Plan of Arrangement	39,060	$ 104,391
Decrease resulting from implementation of Plan of Arrangement	(19,530)	-
Trust Units issued	(17,122)	(91,519)
Exchangeable Shares issued	(2,408)	(12,872)
Balance, May 1, 2004	-	$ -

(c) Trust Unit capital issued

TRUST UNITS OF PEAK ENERGY SERVICES TRUST	Number of units (000's)	Amount
Issued pursuant to Plan of Arrangement, May 1, 2004	17,122	$ 91,519
Units issued for cash, net of costs	4,164	35,242
Issued on conversion of Exchangeable Shares *(note 13)*	1,645	12,921
Balance, December 31, 2004	22,931	$ 139,682
Units issued upon earn-out payment from acquisition *(note 2)*	197	2,000
Units issued for consideration in business acquisitions *(note 2)*	889	9,500
Units issued for cash, net of costs	1,673	18,861
Issued on conversion of Exchangeable Shares *(note 13)*	798	7,606
Balance, December 31, 2005	**26,488**	**$ 177,649**

(d) Stock based compensation

As part of the reorganization into a trust, the Stock Option Plan was cancelled. Upon the cancellation of the Stock Option Plan, the holders of 2,077,200 unexercised options were paid $4,268 in cash, being the equivalent of the differential between the exercise price of the options held and the weighted average trading price of PESL's stock immediately prior to the transaction.

As a result of the cancellation of the Stock Option Plan, the Trust recognized the remaining unamortized stock based compensation expense of $639 as part of reorganization costs. The cash payment of $4,268 was recorded as a reduction to contributed surplus in the amount of $1,077, representing the cumulative amount recorded to contributed surplus associated with stock based compensation, and the residual amount of $2,118 (net of taxes in the amount of $1,073) was applied as a reduction to accumulated earnings.

15. CONTRIBUTED SURPLUS

	Amount
Balance, December 31, 2003	$ 1,802
Stock based compensation	758
Reorganization into the Trust *(note 14 (d))*	(1,077)
Balance, December 31, 2004 and 2005	**$ 1,483**

16. MARKET BASED COMPENSATION

Effective January 1, 2005, the Trust implemented a market based bonus plan. Under the Market Plan, Rights with a three year vesting period are allocated to certain employees and key consultants. The number of Rights outstanding at any time is not to exceed seven percent of the total number of Trust Units outstanding. At December 31 of each year, all vested Rights are automatically cancelled and, if applicable, paid out in cash. The payout is calculated as the number of vested Rights multiplied by the total of the market appreciation (defined as the differential between the market price of Trust Units at the vesting date and the market price of Trust Units at the date of grant ("Base Price") of the Right) and

associated distributions of a Trust Unit for that period. The Base Price of each unvested Right automatically changes to the market price of the Trust Units on January 1 of the year that the Right vests. A tax factor of 1.33 is then applied to determine the amount of the payout.

During 2005, 585,000 Rights were allocated with an average Base Price of $9.25.

Compensation costs at December 31, 2005 related to 195,000 vested Rights, with an average Base Price of $9.25 were $1,220. Subsequent to December 31, 2005, this amount was paid to the Rights holders.

17. DEPRECIATION AND AMORTIZATION

	2005	2004
Property and equipment	$ 10,935	$ 9,273
Intangibles	1,845	755
	$ 12,780	$ 10,028

18. REORGANIZATION PURSUANT TO PLAN OF ARRANGEMENT

To effect the reorganization into a trust, for the year ended December 31, 2004, the Trust incurred $3,927 of reorganization costs. These costs include financial advisors, tax advisors, legal, internal costs and other associated costs which have been recognized in the consolidated statement of operations.

19. EARNINGS PER UNIT

The weighted average basic Units outstanding for the year ended December 31, 2005 were 23,929,617 (2004 – 18,184,151).

The weighted average diluted Units outstanding for the year ended December 31, 2005 were 24,815,840 (2004 – 19,454,628).

20. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	2005	2004
Accounts receivable	$ (5,966)	$ (5,817)
Prepaid expenses	(381)	(252)
Inventory	-	332
Accounts payable and accrued liabilities	3,907	4,032
Income taxes (recoverable) payable	(2,066)	(117)
	$ (4,506)	$ (1,822)

21. LOAN RECEIVABLE

In November 2000, the Trust invested $650 in Petrowave Solutions, Inc. ("Petrowave"), a company which provides secure internet-based commercial software solutions for the oilfield services sector. This investment represented a 33.9 percent ownership interest in Petrowave and as such was accounted for using the equity method.

The Trust had a revolving demand credit facility with Petrowave, to a maximum of $500, interest-bearing at bank prime plus 2.00 percent. At December 31, 2003, $198 of this facility was utilized. On September 10, 2004, the Trust sold its ownership interest in Petrowave. As part of the transaction, the loan receivable was paid in full and the Trust realized a recovery of loss on equity investment of $114.

22. SUPPLEMENTAL INFORMATION

	2005	2004
Interest paid	$ 1,684	$ 1,154
Income taxes paid	$ 675	$ 4,282

23. COMMITMENTS

The Trust is committed to payments under operating leases for vehicles, equipment and buildings as follows:

2006	$ 6,477
2007	6,923
2008	6,114
2009	4,512
2010	3,683
Total	$ 27,709

In 2005, the Trust incurred $4,680 (2004 – $3,679) of expenses related to operating leases.

24. CONTINGENCIES

The Trust is involved in litigation matters arising out of the ordinary course and conduct of its business. The likelihood of contingent liabilities resulting from these matters is not determinable and related potential losses cannot be reasonably estimated. No accrual of loss has been made to the consolidated financial statements.

25. RELATED PARTY TRANSACTIONS

These transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

For the year ended December 31, 2005

The Trust paid underwriting fees of $500 (offset against Trust Unit capital) to Canaccord Capital Corporation ("Canaccord"). A member of PESL's Board of Directors is an officer of Canaccord. In addition, under the September 21, 2005 Trust Unit offering, Canaccord acquired 821,000 Trust Units of the Trust for proceeds of $9,852 which closed on October 18, 2005.

For the year ended December 31, 2004

The Trust paid underwriting fees of $720 to Canaccord Capital Corporation ("Canaccord"). A member of the Trust's Board of Directors is an officer of Canaccord. In addition, under the November 22, 2004 Trust Unit offering, Canaccord acquired 1,608,960 Trust Units of the Trust for proceeds of $14,400 which closed on December 14, 2004.

26. FINANCIAL INSTRUMENTS

(a) Risk management activities

A concentration of credit risk on the Trust's trade accounts receivable exists as they are virtually all derived from the oil and gas industry. The Trust manages this risk through various internal processes including credit checks, special conditions applied to customers based on historical experience, and management of accounts receivable exposure to any one customer during any one period. Except as disclosed in the following paragraph, the Trust does not have a significant exposure to any individual customer or other parties.

The Trust has one customer which represents in excess of 10 percent of revenue for 2005. Revenue attributable to this customer was $23,251 (2004 – $12,657) of which $19,505 (2004 – $8,994) relates to the Trust's Drilling Services operating segment and $3,746 (2004 – $3,663) relates to the Trust's Production Services operating segment.

(b) Fair values

The carrying values of cash and cash equivalents, accounts receivable, income taxes recoverable, prepaid expenses, accounts payable and accrued liabilities and distributions payable approximate their fair value due to the relatively short period of maturity of these instruments. At December 31, 2005, the long-term debt has a fair value of $37,573 (2004 – $20,000). The fair value was calculated using an interest rate of 6.0 percent which represents management's estimate of the interest rate in effect at December 31, 2005 for similar debt facilities.

(c) Interest rate risk

Through its use of long-term debt, the Trust is exposed to interest rate risk as its debt has fixed and floating rates. Management employs several methods to implement its strategy of minimizing this risk.

(d) Foreign exchange

The Trust has an exposure to foreign currency exchange rates, primarily because of its operations in the United States of America, where both carrying values and earnings are subject to foreign exchange risk. Currently, management believes these operations are not significant enough to warrant an active management program to mitigate the foreign exchange exposure.

27. SEGMENTED INFORMATION

The Trust has determined that it operates in two industry segments which are substantially in one geographic segment. The segments are as follows:

DRILLING SERVICES

The Drilling Services operating segment is comprised of four components; solids control, well-site accommodations, access matting and environmental services. The solids control component is engaged in the rental of sumpless drilling systems comprised of a series of tanks and centrifuges that are used primarily for the removal of drill cuttings from the drilling fluid as it is circulated out of the well bore. The well-site accommodations component is engaged in the rental of high-quality well-site accommodation units used as office and living quarters for personnel on drilling rig locations. The access matting component provides access matting used to construct roads, pipeline rights-of-way and drilling rig locations. The environmental services component is engaged in providing wastewater management systems for the processing of grey

and black water effluent in remote locations. The solids control, well-site accommodation, access matting and environmental services components are aggregated into the single operating segment referred to as Drilling Services because they have similar economic characteristics and are similar in nature regarding customers, the products and services offered, the processes and distribution methods utilized and the regulatory environment they operate in.

PRODUCTION SERVICES

The Production Services operating segment is comprised of three components; wireline, fluids handling and production equipment. The wireline component is engaged in the provision of slick line services for down hole production and completion activities. The fluids handling component is engaged in tank truck and related services for production and completion activities. The production equipment component is engaged in the rental of frac/production tanks, blowback tanks, flare stacks, light towers, service rig equipment, and miscellaneous production and completion equipment. The wireline, fluids handling and production equipment components are aggregated into the single operating segment referred to as Production Services because they have similar economic characteristics and are similar in nature regarding customers, the products and services offered, the processes and distribution methods utilized and the regulatory environment they operate in.

General and administrative expenses are allocated to the operating segments based on percentage of assets.

2005	Drilling Services	Production Services	Corporate	Total
Revenue	$ 75,589	$ 35,107	$ -	$110,696
Depreciation and amortization	9,183	3,597	-	12,780
Interest on long-term debt	-	-	1,672	1,672
Income before other items	26,095	5,126	(2,570)	28,651
Net income	24,792	4,715	(5,436)	24,071
Goodwill	18,432	13,963	-	32,395
Total assets	181,851	80,881	6,630	269,362
Capital expenditures [1]	14,589	6,970	1,845	23,404

(1) Excludes business acquisitions disclosed in note 2.

2004	Drilling Services	Production Services	Corporate	Total
Revenue	$ 50,677	$ 19,648	$ -	$ 70,325
Depreciation and amortization	6,751	3,277	-	10,028
Interest on long-term debt	-	-	1,154	1,154
Income before other items	14,065	1,430	(2,028)	13,467
Net income	10,868	1,246	(4,423)	7,691
Goodwill	14,704	2,132	-	16,836
Total assets	157,247	40,881	7,526	205,654
Capital expenditures [1]	22,598	4,499	1,319	28,416

(1) Excludes business acquisitions disclosed in note 2.

28. SEASONALITY OF OPERATIONS

The Trust's operations are carried out in western Canada and the mid-west United States of America. The ability to move heavy equipment in oil and gas fields is dependant on weather conditions, whereby thawing in the spring renders many secondary roads incapable of supporting heavy equipment until the ground is dry. In addition, activity in more northern parts of Canada is accessible only in winter months where the ground is frozen enough to support the equipment. As a result, the Trust's activity generally follows along with this seasonality, whereby activity is traditionally higher in the first and fourth quarter of the year and lower in the second and third quarter. The Trust provides access matting used for constructing roads, pipeline rights-of-way and drilling locations in remote areas of Western Canada. Access matting activity is traditionally highest throughout the second and third quarters of the year, which historically, drilling activities have had challenges accessing certain drilling locations.

CORPORATE INFORMATION

Board of Directors of Peak Energy Services Ltd.

CHRISTOPHER E. HASLAM
Chairman of the Board and Chief Executive Officer, Peak Energy Services Ltd.

WILLIAM M. GALLACHER
President and Chief Executive Officer, Avenir Capital Corporation; President and Chief Executive Officer, Avenir Diversified Income Trust; Director, Maxim Power Corporation

RICHARD A. GRAFTON
Executive Vice President and Managing Director, Canaccord Capital Corporation, Oil and Gas

FREDERICK A. MOORE
President, Nusco Supply and Manufacturing Inc.

LLOYD C. SWIFT
President, Square Butte Resources Inc.

Management of Peak Energy Services Ltd.

CHRISTOPHER E. HASLAM
Chairman of the Board and Chief Executive Officer

CURTIS W. WHITTERON
President and Chief Operating Officer

MATTHEW J. HUBER
Chief Financial Officer

R.S. (BOB) OUTHWAITE
Senior Vice President

DALE M. KAUFMANN
Vice President, Operations

MONTY R. BALDERSTON
Vice President, Finance and Administration

DEAN R. HERBERT
Vice President, Human Resources

JOHN E. HUDSON
Vice President, Health, Safety, Environment and Risk Management

JOHN K. RUZICKI
Vice President, Sales and Marketing

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Peak Energy Services Trust, Symbol "PES.UN"

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KPMG LLP
Calgary, Alberta, Canada

Registrar, Transfer Agency and Trustee

VALIANT TRUST COMPANY
Calgary, Alberta, Canada

Legal Counsel

BURNET, DUCKWORTH & PALMER LLP
Calgary, Alberta, Canada

FRASER MILNER CASGRAIN LLP
Calgary, Alberta, Canada

Banker

NATIONAL BANK OF CANADA
Calgary, Alberta, Canada

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